Austria Sch 20	Indonesia Rp 3100	Philippines Pes 20
Bahrain Din 0.650	Israel IS 3.50	Portugal Esc 100
Belgium BFr 45	Italy L 1600	S Arabia Rls 6.00
Canada C$1.00	Japan Y 600	Singapore S$4.10
Cyprus C£0.75	Jordan Fils 500	Spain Pta 125
Denmark DKr 9.00	Kuwait Fils 500	Sri Lanka Rup 30
Egypt E£1.50	Lebanon L 25.00	Sweden SKr 8.00
Finland FmK 7.00	Luxembourg LFr 45	Switzerland SFr 2.20
France FFr 8.50	Malaysia Rm 4.25	Taiwan NT$65
Germany DM 2.20	Mexico Pes 300	Tunisia Din 1.375
Greece Dr 80	Morocco Dh 6.00	Turkey L 350
Hong Kong HK$12	Netherlands Fl 3.00	U.A.E. Dh 6.50
India Rup 15	Norway NKr 7.00	U.S.A. $1.00

FINANCIAL TIMES

EUROPE'S BUSINESS NEWSPAPER

No. 30,135 Friday January 16 1987 D 8523 B

Iran's 'final' offensive may not end Gulf War, Page 4

World news

Brussels agrees tough line on US

THE 12 EEC member states agreed in principle last night on details of tough retaliation against US farm exports, if a trade war breaks out next month between the two blocks, writes Quentin Peel in Brussels.

Senior diplomats in Brussels decided that tariffs of between Ecu 42 and Ecu 55 ($46.2 and $60.5) per tonne would be imposed on imports of US corn gluten feed and rice – opting for significantly higher figures than originally proposed by the European Commission.

French defence call

French President François Mitterrand called for greater co-ordination of defence policies, between Western European countries and between the US and its European allies. Page 18

Greece at a standstill

Most of Greece came to a standstill as about 2m workers staged a 24-hour general strike against government austerity measures which include a wage freeze. Page 2

Soviet withdrawal

Moscow is to withdraw a division of its military forces from Mongolia this year, cutting by some 10,000 men its troop commitment in the vast but underpopulated buffer state between the Soviet Union and China. Page 2

Waite progresses

British Anglican Church envoy Terry Waite said his mission to free hostages in Lebanon was making good progress after a "long night" of secret talks.

Karachi shootings

Two people were killed and more than 50 wounded when police in Karachi fired at mourners returning from the funeral of a man police shot on Wednesday during communal riots.

Expulsion revoked

South Africa reversed its decision to expel Los Angeles Times correspondent Michael Parks after saying it had received unspecified "assurances and undertakings" from executives of the newspaper.

Parties allowed

Chile's military rulers approved a law permitting the formation of political parties for the first time since the 1973 coup that brought President Augusto Pinochet to power. But Marxist groups remain banned.

EEC emergency talks

EEC budget ministers have been summoned to Brussels for an emergency meeting today in an effort to break a new deadlock on spending plans for the coming year. Page 3

Plea for Tamils fails

Switzerland refused to reconsider a decision to deport about 40 Tamils to Sri Lanka despite appeals by a number of human rights groups who fear they face torture and imprisonment.

Unequal pay upheld

British nuclear scientists working at the joint European nuclear fusion research station at Culham, Oxfordshire, had their claim for equality of pay with EEC colleagues rejected by the European Court of Justice. Page 10

Hijack suspect held

West German police are holding a 22-year-old Lebanese suspected of complicity in the June 1985 hijacking of a TWA airliner to Beirut. They said he was detained at Frankfurt airport on Tuesday

Cold melts ice rink

An ice hockey match had to be called off in bitterly cold central Sweden because the ice rink melted. Record low temperatures caused a malfunction in machinery that keeps the ice frozen indoors.

Business summary

Swedish exchange expels Fermenta

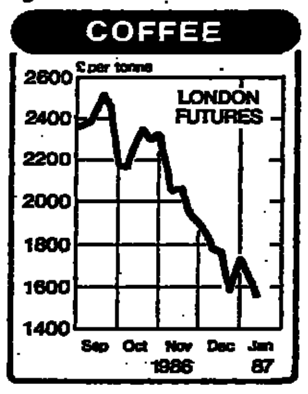
FERMENTA, troubled Swedish antibiotics and animal health company, has been expelled from the Swedish stock exchange. Page 19

WALL STREET: The Dow Jones industrial average closed up 35.72 at 2,070.73. Volume surged to a record 253.12m shares. Page 38

LONDON was hit by a wave of European and US buying which pushed the FT-SE 100 index to another peak with a 23.8 surge to 1,789.6. The FT Ordinary index jumped 17.9 to 1,406.9. Gilts were firmer. Page 38

TOKYO stock market was closed for a international holiday. Second thoughts ahead of NTT listing. Page 38

COFFEE



COFFEE futures hit 16-month lows on the London futures markets yesterday. A £20 fall took the March position to £1,557.50 a tonne and brought to more than £70 the decline sparked by last week's announcement of the reopening of Brazilian export registrations. Page 30

GOLD fell $3.75 on the London bullion market to close at $415.75. In Zurich it rose to $416.55 ($415.55). Page 30

DOLLAR rose in London to DM 1.8425 (DM 1.8360); to FFr 6.1575 (FFr 6.1350); to SFr 1.5480 (SFr 1.5360); and to Y153.55 (Y152.75). On Bank of England figures the dollar's index fell to 104.9 from 105.2. Page 31

STERLING fell in London to $1.5050 ($1.5060); but rose to DM 2.7675 (DM 2.7650); to FFr 9.2675 (FFr 9.24); to SFr 2.3250 (SFr 2.3150); and to Y231.00 (Y230.05). The Pound's exchange rate index remained unchanged at 68.3. Page 31

INTEL, US semiconductor manufacturer, reported a loss in the last quarter of 1986 of $18m, its sixth consecutive quarterly loss, but orders for the period were the highest since 1984. Page 19

FIRST BANK SYSTEM, medium-sized US bank, reported a 21.7 per cent rise in 1986 net income to $202.9m and said it had boosted its return on equity to a record 16 per cent. Page 19.

LEADING Hong Kong banks cut their prime lending rate by percentage points to 5 per cent in a bid to halt speculation that the government was about to break a three-year link between the US dollar and the local unit. Page 4

VENDEX INTERNATIONAL, Netherlands retailing group, and Barnes & Noble of the US have jointly bought B. Dalton bookstore chain to create one of the world's biggest booksellers. Page 20

HERO CONSERVEN Lenzburg, Swiss foodstuffs concern, has rejected a takeover bid from Jacob Suchard, Swiss coffee and chocolate group, and made a counter offer to buy 80 per cent of Colima Holding, Suchard's majority shareholder. Page 20

ANCHOR HOCKING, US glassware and packaging maker, has received a second takeover offer from Newell, household goods maker, believed to be less than the $34 a share offer it rejected from Newell last year. Page 19

The Financial Times apologises to its readers and advertisers for delays in distribution caused by the present severe weather.

UK go-ahead for BTR's Pilkington bid under fire

BY MARTIN DICKSON AND PETER RIDDELL IN LONDON

THE BRITISH Government decided yesterday not to refer to the Monopolies Commission the £1.2bn ($1.8bn) takeover bid by BTR for Pilkington Brothers, the glassmaker. The decision was taken in spite of opposition from several Ministers and a substantial number of Conservative Members of Parliament.

Controversy surrounding the bid was further intensified when BTR demanded an urgent London Stock Exchange inquiry into a "precipitate increase" in the price of Pilkington's shares on the eve of the announcement.

It also became known at Westminster that the three Ministers of State at the Department of Trade and Industry (DTI) were neither consulted nor informed about the Government's decision beforehand, nor do they approve.

The Ministers, Mr Giles Shaw, Mr Geoffrey Pattie, and Mr Alan Clark, noticeably did not sit alongside Mr Paul Channon, the Trade and Industry Secretary, when he explained the decision in the House of Commons yesterday.

There had been intense lobbying from MPs and trades unionists for the bid to be referred on the grounds that BTR was an aggressively acquisitive industrial conglomerate which placed a strong emphasis on short-term performance, while Pilkington, the world's leading maker of flat and safety glass, was an important regional employer in Northwest England with a strong commitment to research and development.

Mr Channon said, however, that he had accepted the advice of Sir Gordon Borrie, the Director-General of Fair Trading, that "the merger did not raise significant competition issues."

He highlighted the Government statement in July, 1984, that the primary yardstick for a monopolies reference should be competition and argued that it was necessary to have a predictable set of criteria to alert companies to the kind of bid which would be referred.

Some other ministers, including those outside the DTI, feel that Mr Channon has acted too legalistically. While he is in a quasi-judicial position, which precludes general consultation, it has happened that an informal political discussion has occurred on such decisions.

Moreover, such ministers feel that the strong arguments about the regional and research and development implications of the bid should at least have merited a second look by the Commission. Mr Channon took the decision on advice from Mr Michael Howard, the Under-Secretary for Corporate and Consumer Affairs, and his officials.

Mrs Thatcher was informed yesterday morning.

Mr Channon's decision was criticised by virtually all the Conservative MPs who intervened in the Commons debate yesterday.

The Government will be further embarrassed by the movement of Pilkington's share price, which

Continued on Page 18

Swiss bank given illegal Guinness guarantees

BY CLIVE WOLMAN IN LONDON

MR ERNEST SAUNDERS, who was sacked as chief executive of Guinness on Wednesday night, and Mr Olivier Roux his former finance director, persuaded a Swiss bank to buy about £130m worth of the drinks company's shares by giving a guarantee to repurchase them at no loss.

The shares were purchased in the final five days of the £2.5bn Guinness takeover battle for Distillers, the scotch whisky company, last year. The aim was to boost artificially the Guinness share price and thus enhance the value of the Guinness offer to Distillers' shareholders.

After Guinness won the battle on April 18, however, the shares were not repurchased immediately from the two subsidiaries of the Zurich-based Bank Leu, which had bought them. Instead Guinness put a large amount of its own money, although much less than £130m, on an interest-free deposit with Bank Leu to compensate it for holding the shares. Mr Saunders and Mr Roux agreed instead to arrange a placing of the shares, which would allow Bank Leu to sell them, in December. But the plan was interrupted by the investigation by the Department of Trade and Industry.

Companies Act provisions prohibit a company, except in limited circumstances, from giving financial assistance for the purchase of its own shares. The arrangement was similar to another £7.6m deal that involved the merchant bank Henry Ansbacher, which also bought Guinness shares for clients during the takeover battle. Those shares are now held in a nominee account.

Guinness's merchant bank adviser, Morgan Grenfell, and its leading corporate finance director, Mr Roger Seelig, who has now resigned, organised three such deals in the UK involving a total of less than £50m.

However, these deals are overshadowed by those of Bank Leu, the chairman of whose supervisory board, Dr Arthur Fuerer, is a non-executive director of Guinness. On Wednesday, Bank Leu asked Guinness for clearance to disclose the details of its involvement, but Guinness has refused to allow it to do so. It intends to send a letter to shareholders within the next few days outlining at least some of the activities of the former Guinness directors.

However, in an unprecedented move yesterday, Bank Leu asked for permission from the Swiss Banking Commission, the watchdog authority, to be exempted from the Swiss bank secrecy rules so that it can disclose its involvement.

The Swiss authorities which have come under increasing international pressure in recent years to relax some of the traditional Swiss bank secrecy, has allowed it to do so. As a result, the bank will be holding a

Continued on Page 18

Lex, Page 18; City of London under a cloud, Page 16; Thatcher on self-regulation, Page 18

Stoltenberg sceptical over plan to halt dollar's slide

BY DAVID MARSH IN BONN

MR Gerhard Stoltenberg, the West German Finance Minister, yesterday voiced scepticism over the chances of any agreement with the US on stabilising the sliding dollar.

His comments on a day of highly volatile movement in the dollar on foreign exchanges follow speculation about such an agreement. However, his views, combined with the reluctance of the Bundesbank, the West German central bank, to cut interest rates, underline the unlikelihood of the Federal Republic relaxing significantly its tight economic policies in spite of increasing upward pressure on the D-Mark.

Separately yesterday the US Federal Reserve Board signalled that Mr Paul Volcker, Fed chairman, did not want to see the dollar decline further. The Fed, when asked for Mr Volcker's views on the dollar, referred to the chairman's testimony to Congress in September when he indicated that he believed the dollar had fallen far enough.

Earlier this week US press reports suggested that the US Administration was seeking to drive down the value of the dollar. The reports were followed by ambiguous denials from the White House but yesterday a White House spokesman firmly denied that the Administration was trying to drive the US currency lower.

The West German authorities appear prepared to see a further short-term rise in the D-Mark, even though this would exacerbate problems for exporters, rather than take action which could compromise anti-inflation efforts.

Mr Stoltenberg, speaking in Bonn, said he believed the dollar was undervalued on the basis of a long-term evaluation of costs in the US and West Germany.

The rise of the yen in the last 10 days illustrated the limited value of "political accords" such as the US-Japanese economic agreement at the end of October, he said.

As underlined by Mr Martin Bangemann, the Economic Minister, on Wednesday, the Bonn Government is considering implementing ahead of schedule already planned tax cuts if the economy continues to perform sluggishly after the January 25 general election.

Mr Stoltenberg spoke out against any sharp fiscal policy changes in reaction to "short-term economic fluctuations."

He also said he "fully respected" the Bundesbank's desire not to cut its discount or Lombard interest rates in view of the above-target growth of West German money supply.

Mr Stoltenberg's remarks coincide with further signs of opposition to some of the Bundesbank's proposals, outlined at last weekend's monetary meeting in Brussels, to extend the rules governing intervention within the EMS

Janet Bush in London writes: After falling sharply again in Frankfurt the dollar later improved to close in London at DM 1.8425, slightly above Wednesday's closing DM 1.8360. It also made up some ground against the Japanese yen to end at Y153.55 compared with the previous close at Y152.75.

Foreign exchange dealers said the market was highly volatile as the dollar was buffetted by the various statements from the US and West Germany.

Currencies, Page 31; Dollar's fall masks pound's weakness, Page 19

Afghan 'ceasefire' marked by guerrilla attacks

By Our Foreign Staff

AFGHAN guerrillas ensured that the ceasefire called by the Soviet-backed government in Kabul failed to take effect yesterday by launching several major attacks, including one in which they claim to have downed a Soviet troop-carrying helicopter with a missile, killing 19 Russian soldiers.

General Najibullah, the Communist leader of Afghanistan, had called for a ceasefire to begin at dawn but within hours it was clear that the mujahideen guerrillas had ignored the deadline and intensified their attacks.

A military spokesman for the Afghan regime, Colonel Fakhri, confirmed in Kabul that guerrillas had broken the ceasefire and clashes were occurring in the Eastern area of Khost. Gen Najibullah has promised "quick and deadly" retaliation if the guerrillas do not stop fighting.

Spokesmen for guerrilla groups based in Pakistan said that in addition to Khost, fighting continued in Torkham and Jalalabad in the east and Kandahar in the south east.

They claimed to have brought down the Soviet Mi-8 helicopter near Jalalabad and also claimed to have killed three government soldiers and destroyed a vehicle in an incident at Torkham.

The collapse of the proposed ceasefire within hours of its start, although widely predicted, is a severe blow to Gen Najibullah who has tried to gain international approval by seeming to lead a peace initiative. He announced yesterday that he and the Soviet Union had agreed on accords to pave the way for a full withdrawal of Soviet troops from Afghanistan but gave no details.

A spokesman for the Pakistan Foreign Ministry said yesterday that if the Soviets and Afghan Government agree a "reasonable" timetable for withdrawal, Pakistan, which supports the guerrilla campaign, would sign an agreement to settle the problem today.

However, Pakistan's interpretation of "reasonable" is three months compared with the Soviet's previously expressed preference of three to four years.

Gen Najibullah reinforced his initiative yesterday by also announcing an amnesty for military deserters

The Pakistan-based guerrillas, of which there are seven main groups, denounced Gen Najibullah's peace initiative as a fraud and some had pledged to redouble their attacks on communist forces as soon as the ceasefire deadline took effect.

Lufthansa set to buy 15 Airbus A340s

BY LYNTON McLAIN IN LONDON, ANDREW FISHER IN FRANKFURT AND PAUL BETTS IN PARIS

LUFTHANSA German Airlines yesterday announced plans to become the first airline to order the proposed Airbus Industrie A340 four-engine intercontinental airliner, the European rival to the US McDonnell Douglas MD-11, launched after Christmas.

Lufthansa is to order 15 A340s and is to take an option on a further 15 of the long-range airliners, although Airbus Industrie has not taken a decision to formally launch the A340.

The go-ahead for the airliner project at a cost of about US$2.5bn, including the cost of the A330 three-engine version for short-to-medium range operation, is dependent on at least five major international airlines ordering the A340 and on the national governments of the partners in Airbus Industrie agreeing to fund aid to develop the aircraft.

Airbus Industrie said yesterday that the Lufthansa agreement was 'the first step in the confirmation of our product strategy.' Airbus had expected commitments from airlines 'at the turn of the year' and it still expected to be on its target of winning orders from five airlines for the A340 by the end of the first quarter this year.

The German national airline has chosen the revolutionary V2500 SuperFan hybrid propeller jet engine to power its A340 airliners. The engine is being developed by International Areo Engines, a consortium of Rolls-Royce, Pratt & Whitney, Japan Aero Engines, Motoren und Turbinen-Union of Germany, Fiat Aviazione of Italy.

The decision to use this engine, the first time it has been requested by an airline, had been a 'key factor' in Lufthansa's decision to go ahead with an order for the A340, Mr Reinhardt Abraham, the vice chairman and chief technical executive of Lufthansa said yesterday.

Air France announced yesterday its intention of ordering 16 Boeing 747-400s, the latest version of the Jumbo jet, worth a total of US$2bn, that it was also studying the possibility of buying seven Airbus A340 airliners, between 1993 and 1995.

Air France results, Page 20; Talks sought on US Scandinavia fares war, Page 8; Airport plan takes Hong Kong by-storm, Page 8

Pan Am, the US airline, and AMR, parent of American Airlines, refused to comment on Wall Street rumours that their chairmen would meet today to settle the terms of a merger. Page 18

Chirac calls for national solidarity

BY PAUL BETTS IN PARIS

MR JACQUES CHIRAC, the French Conservative Prime Minister, reaffirmed last night that his Government would not modify its wages policy and called for a sense of "national solidarity" to tackle France's economic problems.

Although the current wave of strikes in the French public sector has subsided, the pro-Communist CGT union and public service workers organisations have threatened to pursue labour actions for higher wages.

Mr Chirac said France's performance in cutting back inflation had been good last year but it was still "insufficient." He appealed for workers to accept restraint in wage demands this year. The Government is anxious to hold down new wage demands this year to between 2 per cent – 3 per cent.

In a brief appearance on French national television last night, Mr Chirac adopted both a conciliatory and firm tone in what appeared to be an effort to regain the political initiative after the recent accumulation of setbacks for his Government including the student protests, the railway and public sector strikes, and the currency crisis.

Despite his firm line on wages, Mr Chirac said the Government would maintain its pledge to cut taxes this year. He also defended the decision to give additional financial support to French farmers who had seen their incomes decline in recent years. At a time when the country was hit by arctic weather conditions causing severe difficulties and hardship throughout the countrys, Mr Chirac also called for solidarity to help those worst affected by the cold.

Mr Chirac is now expected to announce in coming days a minor

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CONTENTS

EUROPEAN NEWS

David Marsh reports on the political support which industry has no hesitation in giving to the conservative parties

W German business moguls put their weight behind coalition

THE West German opposition Social Democratic Party (SPD), sliding to what looks like heavy defeat in the January 25 general elections, has prepared a partial excuse in advance.

The sympathies of West German industry and finance lie firmly on the side of Chancellor Helmut Kohl's governing centre-right coalition.

The combination of big business support for the conservative and liberal coalition parties, together with the renowned reluctance of the country's electorate to vote against an established government, gives Mr Kohl—according to the SPD—a distinctly unfair advantage.

With industry's traditional antipathy towards the left heightened by the SPD's new anti-nuclear stance, there is little doubt that West Germany's business moguls have come down more firmly on the side of a ruling government than for any time in the past two decades.

"Industry must be interested in policies that are successful," says Mr Tyll Necker, who has just taken over as president of the Confederation of West German Industry (BDI). "And I must say that the policies (of this government) have been successful."

Mr Alfred Herrhausen, co-chairman of Deutsche Bank and a confidant of Mr Kohl's on economic matters, laid down clearly the political position of his bank at a press conference in Dusseldorf last month. Calling for the present coalition's tax cutting plans to be speeded up, he said a change of government would mean there would be no tax cuts at all.

Mr Johannes Rau, the SPD's candidate for the chancellorship, says industry is supporting conservatives more than ever before. He adds, a trifle wistfully: "Maybe it's because they believe we will go into an alliance with the Greens." Mr Rau has consistently forsworn any link-up with the ecology grouping, whose policies on the environment and the economy tend to send industry bosses into a cold sweat.

None the less, Mr Rau's rejection of the Greens is opposed by some within his own party—and Mr Kohl's campaign posters warn of a "Red-Green" coalition if the present government is not returned.

Mr Peter Glotz, the SPD's campaign manager, claims that a dozen large companies and business organisations have spent DM 200m (£72.3m) in advertising over the past year partly aimed at giving support for the Kohl administration.

The German Banking Association has run a series of advertisements praising success in achieving price stability over the last four years, while the electricity industry is spending DM 25m on a pro-nuclear press campaign which started in September.

Spokesmen for the organisations deny that the adertising is politically motivated. "To say that industry is backing the Government with Big money is not true," says Mr Necker. "Electricity utilities are trying to win acceptance for nuclear energy, but this has nothing to do with the election campaign."

Direct party funding by big business has declined over the past few years, mainly because of the repercussions of the scandal surrounding the illicit contributions of the Flick industrial group.

None the less, the party's published reports show clearly which side of the left-right divide companies are putting their money.

Deutsche Bank gave DM 400,000 to Chancellor Kohl's Christian Democratic Union (CDU) in 1985—a sum which is believed to have been repeated in 1986—while the Henkel chemicals and soap powder company contributed DM 290,000. To ward off any accusations of complete one-sidedness, Deutsche Bank, in addition to paying DM 100,000 in 1985 to the CDU's coalition partners, the liberal Free Democrats (FDP), dug into its pockets to give the same sum to the SPD too.

Rau: mere support

For the same reason, Henkel that year alloted DM 60,000 to the FDP and DM 40,000 to the SPD.

Other important donors for the conservative and liberal parties in recent years include the Nixdorf computer company, the Oppenheim banking group, the Albingia insurance concern and motor manufacturer Bayerische Motoren-Werke (BHW).

The most sizable donor for the SPD has been, with grants of DM 510,000 between 1983 and 1985, the trade union-owned Bank fuer Gemeinwirtschaft—although the bank has been careful to make the odd contribution to the CDU as well.

One important reason why SPD policies hold little sway with industry and banking is because, four years after the SPD left power in Bonn, the party has few representatives of stature in the boardrooms.

The last notable SPD man at the top of a major bank was Dr Karl Klasen, who was at the head of the Deutsche Bank between 1967 to 1969 and then became president of the Bundesbank, the central bank, up to 1977. "There will never again be an SPD member at the top of the Deutsche Bank," says one senior former SPD minister.

Mr Karl Otto Poehl, the present Bundesbank president, also came from the ranks of the SPD. But his support for monetary orthodoxy and his good working relationship with the present government have alienated him from the party.

One of the few leading industrialists who is at the same time a paid-up SPD member is Mr Edzard Reuter, finance director at Daimler Benz, West Germany's largest company. Mr Reuter said in a newspaper interview last week that his party allegiance had on occasion "damaged" him professionally — but declined to go into details.

Mr Reuter would be a candidate to join Mr Rau's ministerial team were the SPD candidate — against all the odds — to become chancellor. But the message of the opinion polls is that, after January 25, West German business will again find a political hue to their liking in Bonn's corridors of power.

Inflation in OECD lowest for 22 years

INFLATION IN the 24 industrialised nations of the Organisation for Economic Co-operation and Development fell to 2.2 per cent in the year to November, its lowest since April 1964, the OECD said yesterday. Reuter reports from Paris. It was running at 2.3 per cent in October.

The organisation said people were paying significantly less for energy in November, especially in the US, Japan and West Germany, but their food bills remained moderate.

Unadjusted annual inflation for the seven leading industrial countries in November was running at 4.5 per cent in Canada, 3.5 per cent in Britain, 2.1 per cent in France, 1.3 per cent in the US, minus 0.3 per cent in Japan, and minus 1.2 per cent in West Germany.

Small Swiss rise

Switzerland last year experienced the smallest rise in its cost of living index since 1959, writes John Wicks in Zurich. Government figures show average inflation of only 0.8 per cent, compared with 3.4 per cent in 1985. Consumer prices in December were at the same level as a year earlier. This followed a decline of 0.1 per cent in November, the first since 1960.

Italian car sales

Italian car sales reached a record last year of 1,825,492, with domestic producers taking no less than 61.6 per cent of the market, writes John Wyles in Rome. Total sales were 4.56 per cent higher than in 1985—itself a record year.

Fishing strike ends

Icelandic fishermen agreed yesterday to end a strike that has halted the vital fish catch since the New Year and split the coalition government over ways of ending the dispute, Reuter reports from Reykjavik. However, fish experts are still being held up by a seamen's strike.

Dispute at Seat

For the first time since Volkswagen bought a majority interest in Seat, the Barcelona company's workers have gone on strike in support of a 7 per cent wage demand.

Soviet Union to withdraw one division from Mongolia

BY PATRICK COCKBURN IN MOSCOW

THE Soviet Union is to withdraw a division of its military forces in Mongolia this year Mr Gennady Gerasimov, the Soviet Foreign Ministry spokesman, said yesterday.

The withdrawal of a motorised rifle division and a number of other troops temporarily stationed in Mongolia means that Moscow will cut by some 10,000 men its 75,000-strong force based in the country, a vast but underpopulated buffer state between the Soviet Union and China.

Mr Mikhail Gorbachev, the Soviet leader, said in a speech in Vladivostock last July that Moscow was considering cutting its forces in Mongolia which has long been a close Soviet ally.

The pullout, to take place between April and June, is clearly intended as a signal of good intentions towards China. Despite increased contacts between Peking and Moscow, the Chinese still cite three obstacles to normal relations between the two Communist superpowers. These are: the presence of large Soviet forces on China's northern border; Soviet troops in Afghanistan; and the Vietnamese occupation of Cambodia.

By announcing the withdrawal of troops from Mongolia on the same day as the ceasefire in Afghanistan, Mr Gorbachev evidently wished to indicate to China and other Asian powers a general change in Soviet policy in the region.

The Mongolian People's Republic, which covers an area twice the size of Texas but has a population of only 1.7m, is closely allied to the Soviet Union. As relations between Peking and Moscow deteriorated in the 1960s, Soviet troops were based in the republic under a mutual assistance pact signed in 1966. Mongolia said last year that it supported the withdrawal of a substantial number of Soviet troops from its territory.

Weather toll rises in Eastern Europe

BY LESLIE COLITT IN EAST BERLIN

THE COLD weather is taking an increasing toll in Eastern Europe as shortages of electricity and gas curtail industrial output.

The region was hit by two blizzards yesterday which crippled transport and brought down power lines.

Power stations in East Germany and northern Czechoslovakia ran short of brown coal and work in open cast mines was badly hampered by frozen excavators and snapped conveyer belts.

East Germany also lost 1,000 Mw of capacity (4 per cent of its total) on Wednesday after an explosion at its largest power plant near Cottbus. Several large generating blocks also had to be removed from the Czechoslovak grid, which led to power cuts for homes and factories.

Gas was also reported to be in tight supply in Czechoslovakia despite record production.

Thousands of troops and security service personnel were ordered into the brown coal strip mines of southern East Germany. They provide the fuel for 80 per cent of the country's power stations. Using picks, they dug out frozen railway tracks, which must be frequently moved close to the coal seam being mined. East German power stations have run dangerously low of low-energy coal, which frequently self-ignites when stockpiled.

The power problems are likely to lead to emergency energy imports from the Soviet Union and perhaps the west. Worsening production shortfalls made it increasingly unlikely they would meet their targets in the 1987 economic plan.

AP adds from Budapest: Ten more people have died of exposure in Hungary, bringing the death toll from the cold weather to 14, according to the Communist party newspaper, Nepszabadsag.

Athens spurns strike demand for pay policy relaxation

BY ANDRIANA IERODIACONOU IN ATHENS

GREECE'S SOCIALIST Government yesterday rejected demands from public and private sector strikers for a relaxation of its austerity incomes policy for 1987. The 24-hour nation wide strike was unusual in being backed by socialist trade unionists which until yesterday had been loyal to the Government.

The Government is committed to a near freeze of wages and salaries until the end of 1987, under a two-year stabilisation programme introduced at the end of 1985 to reduce Greece's inflation and domestic and external deficits.

The only pay increases allowed are under a greatly watered down version of the wage indexation system introduced by the socialists when they came to power in 1981. The Economy Ministry announced a 4.1 per cent pay increase for the first four months of this year last week.

Yesterday's strike, which according to advance estimates by organising unions involved about 2m workers nationwide, disrupted daily life and business activity in Athens and Greece's other main towns.

In the capital over 100,000 demonstrators carrying banners demanding higher pay marched to parliament

Although yesterday's strike was not the first against the Government's incomes policy it was the first to be backed by GSEE, Greece's trade union congress, which is controlled by socialists hitherto loyal to the Government.

● Greece's inflation rate in 1986, the first year of a two-year economic stabilisation programme, reached 16.9 per cent against a target of 16 per cent. This was a fall of about eight percentage points from 25 per cent in 1985, but the rate remained much higher than that of Greece's competitors.

Government economists partly attribute the overshooting of the 1986 inflation target to price increases registered last October in anticipation of the introduction of value added tax at the beginning of 1987.

EUROPEAN NEWS

EEC ministers to tackle budget deadlock

BY QUENTIN PEEL IN BRUSSELS

EEC budget ministers have been summoned to Brussels for an emergency meeting today in an effort to break a new deadlock on spending plans for the coming year.

They have to reach agreement before the European Parliament meets next week, if the Community is to have a legal budget from February. Otherwise officials fear the present system of emergency financing for EEC programmes — limiting the cash to monthly twelfths of last year's spending — could continue well into the spring.

The 12 member states are divided among themselves on a relatively tiny amount of cash—less than 0.25 per cent in a total draft budget of Ecu36.25bn (£26.46bn). That amount is also at issue between them and the European Parliament.

Yet the total budget is likely to fall short of spending needs during the year by between Ecu 3bn and Ecu 4bn, depending on the effect of the dollar's fall on agricultural export subsidies, and the savings available from reforming the Common Agricultural Policy. No decision is in sight on how to solve that shortfall.

The current dispute simply concerns the "maximum rate" by which the Parliament is allowed to increase spending on mainly non-agricultural plans, a rate fixed by formula at [illegible] per cent this year. In December the MEPs deliberately exceeded the rate by Ecu 89m for spending in 1987, and some Ecu 186m for longer-term spending commitments.

Britain, France and West Germany, backed by Denmark and Belgium, are determined that the MEPs cannot be allowed to exceed the "maximum rate." They see it as a key element of budget discipline. Italy, Spain and Ireland are equally adamant that some increase is necessary to carry out agreed EEC policies in areas such as social and regional spending.

The European Commission has proposed a compromise based on "creative accounting" —setting up "negative reserves" of the disputed sums which in effect leave the decision on where spending cuts will fall until later in the year, when savings will have been made.

Half the MEPs voted for an illegal budget in December to put pressure on the member states to agree on farm reforms —which the agriculture ministers succeeded in doing, to an extent, a few days later.

Time of trial for consensus politics in Austria

BY PATRICK BLUM IN VIENNA

THE AGREEMENT between Austria's socialist and conservative parties to sink at least some of their differences over forming a "grand coalition" government will test the country's widely admired tradition of consensus politics.

Both parties recognise that such a coalition, similar to the ones that ruled Austria after the War until 1966, presents dangers as well as an opportunity to resolve some difficult problems.

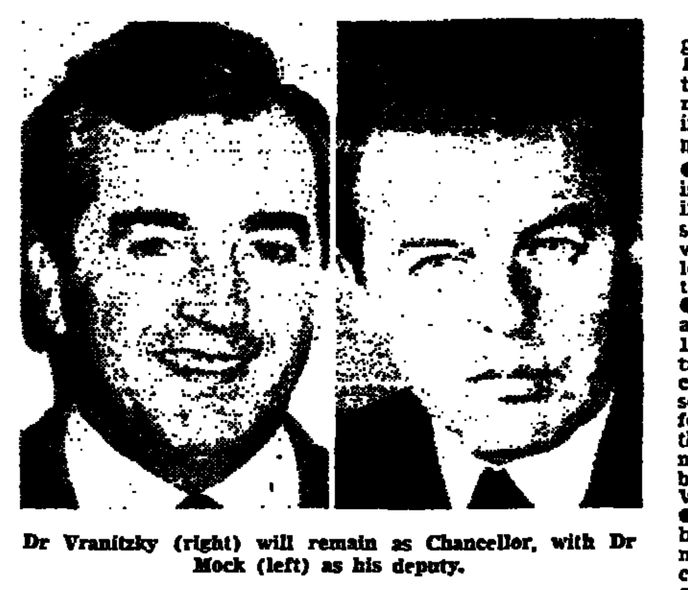
There are voices in both parties opposed to the new coalition on the grounds that it blurs the differences in the parties' political and economic programmes. Others argue that it will encourage complacency, patronage and inefficiency.

The Socialist and People's parties' willingness to form a grand coalition is partly a recognition that it will allow them to tackle issues which they could not, or would be unwilling, to tackle on their own. These include reducing the budget deficit, cutting subsidies to industry and agriculture, restructuring many parts of the state sector to improve economic performance and efficiency, and reforming the tax system.

It is an acknowledgment, too, that neither party has all the answers and of their marked decline in popularity in recent years. Although the Socialists won by a narrow majority in last November's general election, they fell well short of an absolute majority. Both big parties lost a large number of votes as well as seats to the small right-wing Freedom Party and to the Greens—making some form of coalition inevitable.

These shifts reflect the changed circumstances of the 1980s with their reduced growth potential, the budget problems and the appearance of more than negligible unemployment for the first time in more than 20 years. They also reflect some questioning of the consensual system which survived the breakdown of the original grand coalition.

Minority government by one of the two big parties alone was not regarded as a practical and viable alternative. A "small coalition" with the Freedom Party—such as existed before the election—was unacceptable to the Socialists because of the former's sharp lurch to the right, and as potentially too precarious—as well as damaging to Austria's image—for the People's Party.



Dr Vranitzky (right) will remain as Chancellor, with Dr Mock (left) as his deputy.

According to the agreement struck on Wednesday, Dr Franz Vranitzky, a Socialist, remains Chancellor, and Dr Alois Mock, the People's Party leader, becomes Vice-Chancellor and Foreign Minister. The remaining portfolios are evenly distributed among the two parties, with the Socialists retaining Finance and the People's Party put in charge of an Economy Ministry comprising the former Trade and Construction ministries.

Dr Robert Graf, the People's Party's popular and amiable new Economy Minister, a moderate and consensus-oriented politician, is liked by his future Socialist colleagues and his presence will help co-operation between the parties in government, especially since the main issues are economic ones.

The Government's programme is now being drafted. Its overriding policy goals are to reduce the budget deficit and modernise the economy. This involves measures in four major areas:

● The state industries (deficit in 1985 Sch 12.75bn (£539m); in 1986 expected Sch 9bn: restructuring will be accelerated with some privatisation to help loss-making companies raise their own funds.

● The state railways (deficit above Sch 20bn a year since 1981): there will be rationalisations to reduce staffs and closures of some small and secondary lines in preparation for a further modernisation of the network with the establishment of a high speed train link between Vienna, Salzburg and West Germany.

● Tax reform: a change is to be carried out along the US model. The whole system of income tax will be overhauled and simplified. The top rate will be reduced from 62 per cent to 50 per cent, with only three or four basic rates starting at 20 per cent.

Vat will be reduced and the number of products currently taxed at 32 per cent (luxury goods) will be reduced. The high rate will remain only on cars, aircraft, motor boats and caravans. Hi-fi, photographic equipment, furs and jewellery will be at a lower 20 per cent rate.

● Agriculture (total annual subsidies of about Sch 12bn excluding social security). subsidies for exports will be increased by Sch 600m to Sch 9.2bn in the 1986-1987 budget, but thereafter there will be more increases in an attempt gradually to reduce the deficit.

The objective of all these measures is to reduce the budget deficit, which has risen to 5.3 per cent of gross domestic product in 1986, to under 3 per cent by 1991 and to 2.5 per cent by 1992.

Not all believe that the Government will achieve these aims or that the coalition will last. Mr Joerg Haider, the Freedom Party's youthful nationalist leader, has already dismissed the coalition as unable to solve Austria's problems. His brand of right-wing politics causes concern here but he looks most likely to benefit from any government weaknesses.

The Greens, currently in disarray because of infighting, could also cause problems for the Government, which risks being outflanked by movements on its right and on its left, all of which will make its task that much more difficult.

Italy delays considering nuclear power options

BY JOHN WYLES IN ROME

THE ITALIAN Government yesterday courted grave political danger by postponing for six weeks a crucial national conference on the future of Italy's nuclear power programme.

Originally scheduled to run for four days in Venice next week, the conference of politicians, industrialists and scientists has been put back to March 7 ostensibly because the technical preparations are unready.

But given the immense sensitivity of the nuclear issue, parliamentarians were speculating yesterday about political motives. Since the Government has to make recommendations to Parliament on the basis of the conference's deliberations, the result of the postponement is that nuclear energy is likely to become an extremely difficult obstacle to the formation of the next coalition.

This is supposed to be headed by a Christian Democrat under the agreement requiring Mr Bettino Craxi, the Socialist Prime Minister, to step down sometime in early April. The new coalition will have to agree a policy line on nuclear energy and many observers would not be surprised to see it fail and early elections called.

The postponement relieves Mr Craxi of the difficult task of mediating a policy out of very contrasting views within the coalition and gives him every opportunity to exploit the issue when he returns to running the Socialist Party.

In the past few days, the party has been involved in a series of bitter clashes with the Christian Democrats over future nuclear policy.

At a conference in Genoa last weekend, the Christian Democrats were moderately united behind pursuing the current nuclear programme, which would retain the three existing power stations and go ahead with the construction of four more.

The Socialists, by contrast, are in favour of abandoning the nuclear option and phasing the closure of the existing plants. Mr Craxi, sheltering behind his "Ghino di Tacco" nom de plume, implied in yesterday's edition of Avanti, the party newspaper, that Dr Strangelove would be perfectly at home in the Christian Democratic party.

For their part, the Christian Democrats argue that forsaking nuclear energy would put Italy at a clear competitive disadvantage in Europe and would make little sense on the environmental front unless France and West Germany also went non-nuclear.

With a recent poll showing that 72 per cent of Italians opposed nuclear energy, the Socialists feel they are riding a winner. But a severe defeat for the West German Social Democrats, who also favour phasing out nuclear energy, in the general election at the end of next week might yet prompt a softening of position.

Europe Act case opens in Dublin

By Hugh Carnegy in Dublin

The High Court in Dublin yesterday began hearing a challenge to Ireland's proposed ratification of the Single European Act which has delayed its implementation by the European community.

The challenge, by Mr Raymond Crotty, an agricultural economist, claims the act is contrary to the country's constitution and therefore must first be put to a national referendum.

On Christmas Eve, the High Court granted Mr Crotty an injunction restraining the state from ratifying the act pending a full hearing of the case.

Ireland was therefore the only Community member not to ratify the Act, which seeks to establish closer political and economic co-operation within the EEC, by the intended deadline of January 1.

Mr Crotty claims the increased use of majority voting on Community policy under the act undermines the sovereign interest of the state and is detrimental to his personal interests.

The case is expected to last several days. The state will appeal if Mr Crotty wins. Even if he loses, a further delay might occur if he then appeals against the decision.

The Single European Act caused considerable controversy in Ireland, the only member of the Community not allied to Nato, mainly because clauses in it referring to co-operation on security matters were perceived in some circles to infringe Irish neutrality.

Nakasone urges speedy resumption of N-arms talks

BY ALEKSANDAR LEBL IN BELGRADE

MR YASUHIRO NAKASONE, the Japanese Prime Minister, yesterday called for a speedy resumption of nuclear arms reduction talks between the Soviet leader, Mr Mikhail Gorbachev and President Ronald Reagan, and urged both sides to abandon their "all-or-nothing approach."

Speaking in Belgrade on the second and final day of his visit to Yugoslavia, Mr Nakasone said the failure of the previous summit in Reykjavik should not be allowed to obstruct progress towards a resumption of talks.

Referring to his visits in the past few days to Helsinki and East Berlin, Mr Nakasone said that leaders there, together with those in Belgrade, all agreed on the urgent need for the resumption of the summit talks and the speedy conclusion of a deal on arms cuts, though there was less consensus on issues such as the US Strategic Defence Initiative (SDI).

Arms control and disarmament should, he said, be carried out step by step: an "either/or" approach and an "all-or-nothing" attitude were counter-productive.

Arms reduction should be on a global basis, he insisted: distinctions between security in Europe and Asia were meaningless.

Mr Nakasone urged the conclusion of an agreement on a substantial and balanced reduction in nuclear weapons, but added that international security depended on an overall balance between all forms of weaponry, including chemical and conventional weapons.

Mr Nakasone later said that Japan was greatly interested in the current efforts to introduce economic reforms in the Soviet Union and Eastern Europe, which he compared to reforms already implemented in China.

He said that Japan looked forward to better relations with the Soviet Union and welcomed Mr Gorbachev's recent speech in Vladivostok expressing Soviet readiness for friendly relations.

But the ball was now in Moscow's court, he added. There could be no question of stronger ties before the resolution of the territorial dispute over the Soviet-occupied Kurile Islands.

Genoa port dispute settled

BY ALAN FRIEDMAN IN MILAN

THE COMMUNIST trade union, which had threatened a crippling strike at the port of Genoa, yesterday withdrew its action, following agreement on a compromise formula with the port authorities.

The accord represents a face-saving solution for the CGIL union, which had refused to accept new working methods which took effect by decree of the port authorities yesterday.

It had little choice but to accept the agreement as it had been imposed by the port management and signed by the port's two other main unions.

The CGIL also received a concession from the port authorities—an offer to organise the militant workers' co-operative of 3,000 dockworkers as a private company which can earn profits and pay dividends to members.

The accord marks a victory for Mr Roberto D'Allessandro, the tough-minded chairman of the port authority who has reorganised and refinanced the port over the past three years. He has eliminated old-style 19A50s "gang methods" on the docks, and is running the port along private sector management lines.

The agreement, which ends six weeks of labour discontent, was being described as "historic" yesterday by some trade union leaders and also by executives of the port authority.

Mr Ottaviano Del Turco, a senior leader of CGIL, yesterday welcomed the agreement and declared that "the port of Genoa is becoming for the services sector the equivalent of what Fiat represented in 1980 for industry."

He was referring to the agreement which ended serious industrial strife at Fiat in 1980, an accord which is regarded in Italy as an historic turning point in relations between management and unions.

Mr D'Alessandro, a former executive at Fiat, Pirelli and Zanussi who was hand-picked by Prime Minister Bettino Craxi to reorganise the port, now plans to proceed with his containerisation programme and the aggressive marketing of Genoa in the international shipping community. The port is expected to break out of loss this year after years of serious financial troubles.

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EEC jobs rule abused

SOME EEC member states are discriminating illegally against non-nationals in state-owned schools, museums and television stations, the European Commission decided yesterday, Reuter reports from Brussels.

It is writing to France, Italy, Belgium and Britain saying they are abusing rules which exempt public administration from the principle that jobs in the EEC should be open to all Community citizens.

Officials said the Commission has received complaints from several citizens who said these rules had been cited to justify excluding them from jobs. They included an English piano teacher denied a job in a French conservatory, a Dutchman who sought work as a research assistant in the British Museum, a Frenchman who wanted to present the news on Belgium TV, and an Englishman who was told he could not teach English in an Italian school.

AMERICAN NEWS

Stewart Fleming reports on widespread uncertainty about the outcome of negotiations

Reagan finds arms talks a welcome diversion

AS A new round of arms control talks gets under way in Geneva there can be little doubt that Reagan Administration officials are hoping that the negotiating *process* with the Soviet Union will provide President Ronald Reagan with an active foreign policy agenda which may help keep the Iran arms scandal from dominating the headlines.

There is, says Mr Michael Krepon, an arms control expert at the Carnegie Endowment for International Peace in Washington, ample precedent for a president to turn to US/Soviet relations in order to divert attention from domestic political embarrassment. "President Nixon was very active on arms control on the way out," he points out, citing the 1974 threshold test ban treaty and the summit in that year with Soviet leader Leonid Brezhnev.

But there is widespread uncertainty about whether the talks will lead to any meaningful arms control agreements, in particular an agreement on deep cuts in strategic intercontinental ballistic missiles, even though such an accord appeared to be within sight at the Reykjavik summit last October.

Surprisingly, even in Washington, many of those who question whether the potential breakthroughs reached at the Reykjavik summit can lead quickly to a sweeping arms reduction do so less because they question Moscow's seriousness of purpose than because they fear that the Reagan Administration will find it impossible to agree on the compromises. A particular worry is the central issue of Mr Reagan's Strategic Defence Initiative (SDI).

Moscow's continuing interest in a deal is confirmed by Administration officials such as Ambassador Edward Rowney, presidential advisor on arms control, who said this week that Soviet officials are still indicating that Mr Reagan is a man with whom they could do business.

Moscow is still apparently willing to deal with Mr Reagan even though he is politically weakened. But as a Conservative Mr Reagan is recognised in Washington, and no doubt in Moscow, as a man who can still command wide political support for any deal he might make.

As Mr Krepon points out, simply to bring into the arms control camp the most Conservative President of the US in the post-war period would be a significant political achievement for the Soviet Union. Moreover, the agreement which could be achieved most easily, on intermediate-range nuclear missiles in Europe and Asia, may be attractive to Moscow for its potential in creating strains among the Western allies.

Thus the bigger question mark hangs over Washington's readiness to sign an agreement.

Weinberger—emboldened

The US and the Soviet Union opened a new round of negotiations on nuclear and space arms yesterday, the first chance for Mr Max Kampelman, Washington's chief negotiator, to meet Mr Yuly Vorontsov, Soviet First Deputy Foreign Minister, Reuter reports from Geneva.

Mr Vorontsov replaces veteran diplomat Mr Viktor Karpov. The Kremlin said it upgraded the leadership of its team to give fresh impetus to the talks, which have yielded no breakthrough since they began in March 1985.

The seventh round of the talks on strategic and medium-range nuclear missiles and space weapons is expected to last about six weeks.

There is, for example, no evidence to suggest that the split within the Administration over the wisdom of arms control agreements with Moscow has diminished. Prior to the Reykjavik summit the conservative opponents of arms control agreements, resident primarily but not exclusively in the Pentagon, appeared to be losing ground politically as State Department proponents of arms control took the initiative. Mr Caspar Weinberger, Defence Secretary, did not attend the Reykjavik summit, for example.

The Reykjavik breakdown, Mr Reagan's conclusion that Moscow was out to kill his beloved Strategic Defence Initiative and subsequently the political damage suffered by Mr George Shultz, the Secretary of State, as a result of the Iran scandal (which exposed him publicly as an ineffectual opponent of the President on a major foreign policy issue), have strengthened the hard line critics of arms control in the Administration.

On Capitol Hill this week an emboldened Mr Weinberger was advocating early deployment of phase one of the SDI space shield, a move which many arms control experts believe would be tantamount to abrogation of the Anti Ballistic Missile Treaty which they consider to be the strongest foundation of the arms control process. Some fear that abrogation of that treaty, whose terms the Administration has already unilaterally redefined and weakened, is something arms control opponents in the Administration have their sights on.

The Administration opponents of arms control will not have it all their own way. The Democrats now control Congress and in politicians like Senator Sam Nunn, Senator Albert Gore and Rep Les Aspin they have advocates of arms control with recognised expertise on the issues whose credibility is high because they are also vigorous proponents of strong defences.

Congressional pressure on the White House not to abandon the arms control facet of the US/Soviet relationship has been visible. A bi-partisan group of 57 senators has signed a letter urging the Administration not to stick to its decision to abandon the missile limits under the unratified Salt 11 Treaty. In the House, which before the Reykjavik summit dropped legislation pressing the President to make an arms control deal, legislation calling for the President to stick to the ABM treaty has been introduced.

With the presidential elections coming up, the Democrats are expected to try to portray Mr Reagan and his Republican Party as unable to manage US-Soviet releations. This is a charge a weakened Mr Reagan must be wary of as he asks a reluctant Congress for another increase in defence spending and a 60 per cent boost in funds for SDI. There is still widespread popular support for arms control and Mr Reagan must now shoulder the burden of being a President with no major foreign policy achievements to his credit and a foreign policy debacle eroding his credibility.

But even Democratic experts on arms control on Capitol Hill doubt that Congress will be able to exert decisive political leverage on the President, not least because of divisions within the party itself and, it is feared, between the House and the Senate on key arms control issues.

As the new arms control round gets under way it is recognised that if Moscow and Washington are to reach any agreements time is short. Senator Gore is among those who believe that, with the 1988 election campaign looming, "progress has to be made early this year," if a detailed agreement is not to become the casualty of campaign rhetoric. Some experts believe that the most that can now be expected is a generalised agreement in principle, not an arms control treaty and, on the basis of past experience, suspect that that might suit Moscow best.

But whether any agreement is reached will depend on the President personally. Can he still summon up the energy to involve himself in the complexity of the issues and will he accept the judgment of those like Senator Gore who are saying that the US negotiating position "must be supplemented by a willingness to negotiate restraints on SDI." If not, the deep philosophical differences on arms control that divide his top officials will remain unresolved and agreements with Moscow will stay out of reach.

Weinberger praises Reagan leadership

By Stewart Fleming in Washington

MR CASPAR WEINBERGER, the US Defence Secretary, yesterday praised what he described as the extraordinary political and economic recovery which the United States has enjoyed under the leadership of President Reagan.

In a speech at the National Press Club in Washington Mr Weinberger appeared to associate himself with the vitriolic defence of Mr Reagan launched last month by Mr Pat Buchanan, the conservative, who is White House communications director. Mr Weinberger's defence comes amid continuing criticism of Mr Reagan's management of the presidency as a result of the Iran arms deal affair.

Echoing Mr Buchanan's allegations of disloyalty among the President's friends Mr Weinberg said "these summer soldiers and sunshine patriots" seem to have forgotten exactly what and who is largely responsible for the favourable turn in American politics over the last six years."

His remarks appeared designed in part to try and buttress the President's position ahead of the forthcoming battles in Congress, and also to underscore his own loyalty.

"It is remarkable that after all these years Ronald Reagan's leadership is still grossly underestimated he said. He added: "You simply do not accomplish by luck all that America has achieved since 1980."

"We must not allow reasonable political debate over pressing national concerns to be submerged from view while investigations proceed on the Iran affair." Mr Weinberger said: "We must not allow America's remarkable success to be belittled by those who focus narrowly and only on the Iran controversy."

Meanwhile, the White House responded yesterday to pressure on President Reagan to apologise to the American people for the mistakes which were made in the Iran/Contra affair, saying that Mr Reagan had done nothing for which he must apologise.

Republican and Democratic Congressmen have been urging Mr Reagan formally to take full responsibility for the damage they believe has been done by his decision to authorise the Iran arms sales.

Split grows over mounting Brazil economic crisis

BY IVO DAWNAY IN SAO PAULO

SHARP divisions have emerged within the Brazilian Government over how to handle the country's mounting economic crisis. Mr Dilson Funaro, the Finance Minister, is favouring an immediate general price realignment followed by a new freeze, while Mr Jao Sayad, the Planning Minister, is arguing this could send inflation out of control and instead is proposing a gradualist approach.

Funaro—under pressure

The divisions within the Government over how to cope with Brazil's spiralling inflation surfaced after a meeting on Wednesday in Brasilia between five senior ministers and 21 newly elected state governors.

The sense of disarray was heightened by reports of statements from Washington attributed to Mr Fernao Bracher, the Governor of the Central Bank, saying Brazil might have to accept a new deal with the International Monetary Fund. The Central Bank, however, issued a strong denial that any such statement had been made.

The meeting had been convened by President Sarney to drum up support for his government's economic policies from the state governors belonging to Brazilian Democratic Movement (PMDB), the main party in the government coalition. But at the end of the meeting, the governors demanded detailed proposals on paper before they could offer their full endorsement to a revised programme.

According to reports, several governors reacted with ill-disguised irritation at the clear divergencies pitting the Government's two most powerful economic ministries against each other.

The two ministers not only disagreed over how to dismantle the price freeze imposed last February, but also on their views on the seriousness of Brazil's economic situation. Mr Funaro apparently argued that the war on inflation was not yet lost, while Mr Sayad told the governors that the country was "shooting towards an abyss."

Both ministers agree however that a "social pact" on wages must be established with the [illegible] place of a pay-rise trigger system that allows indexed increases each time inflation rises by 20 per cent.

But attempts to reach agreements with the unions on pay to end automatic rises have so far got nowhere with many state governors also opposing any tinkering with the system. Mr Almir Pazzionotto, the Labour Minister charged with negotiating the pact, told the meeting that there was not the slightest possibility of reaching any longterm accord with the unions.

Efforts are now underway to agree a two month "truce" with the unions that would offer a one-off pay rise and a possible reduction in working hours in return for a suspension of the wage trigger until the end of March.

A Finance Ministry official has indicated that monthly inflation for January is expected to reach some 12 per cent. December figures, still unpublished, have been forecast at around 7 per cent.

Alex Nicholl adds: Despite Brazil's determination not to return to the IMF, banks and government creditors are thought likely to put increasing pressure on the country to do so, given its deteriorating economic position.

Not only does the government face crucial rescheduling talks with the Paris Club next week on debt to governments, but it is also due this year to make a repayment of about $1bn to the IMF itself.

Argentina signs oil deal

BY TIM COONE IN BUENOS AIRES

ARGENTINA'S FIRST offshore oil production is to be undertaken by a consortium of Total of France, Deminex of West Germany and Bridas, a local oil company, following a contract signed this week with YPF, the state oil company.

The contract envisages an investment of $250m over the next two years in two fixed production platforms, undersea pipelines and shore storage facilities. This is in addition to an investment of $175m already made by the consortium in exploration work since 1978 in the Alstral basin in southern Argentina, off Tierra del Fuego.

Recoverable reserves from the field are estimated at 44m barrels, which according to foreign oil company executives is a relatively small find and probably an economically marginal one.

Union Carbide wins on appeal

A US court issued a ruling yesterday that could hurt the Indian Government's case against the Union Carbide chemical company.

The US Court of Appeals here ruled that Union Carbide was not subject to US laws that would have allowed the Indian Government to obtain witnesses and documents pertaining to the plant in the US.

Chile passes party law

CHILE's military rulers yesterday approved a law permitting the formation of political parties for the first time since the 1973 coup that brought the military to power, Reuter reports from Santiago.

The law was approved by the four-man military junta which acts as the country's legislature under the 1980 Constitution. Marxist parties are specifically excluded under its terms.

Political parties have been officially banned since the military overthrew the Marxist government of President Salvador Allende in a bloody coup 13 years ago.

Opponents of the ruling junta have criticised the restrictions imposed on party organisation.

Opposition politicians and diplomats say the fact that party affiliation will be public knowledge will inevitably create problems for all but right-wing parties.

OVERSEAS NEWS

Party chief Hu misses Peking appointments

BY ROBERT THOMSON IN PEKING

THE FATE of the Chinese Communist Party general-secretary, Hu Yaobang, rumoured to have fallen from political grace, remained in doubt last night after he missed a scheduled meeting with the Finnish Communist Party chairman, Arvo Aalto.

A spokesman for the Chinese party's international liaison department earlier refused to confirm or deny whether Mr Hu was still the party boss. He would only say that Mr Hu "is not in good health, and that is why he does not meet with foreign visitors."

Diplomatic and Chinese source said a gathering of Chinese governors and mayors had been taking place in Peking, and it was believed the Chinese politburo was to meet in the next few days. If Mr Hu is in trouble, his case would certainly be at the top of the agenda.

Meanwhile, the party's discipline inspection committee issued a tough circular alleging that a few party members, "including some leading party officials," have "defied party discipline and taken advantage of China's reforms" to air views conflicting with party policy.

"If anyone, no matter how high his rank or how great his reputation is, violates party political discipline and advocates bourgeois liberalisation, he will be subject to party disciplinary measures," the circular said.

Chinese officials have had many chances to end the speculation surrounding Mr Hu by making a simple statement confirming that he is still heading the party. Instead reports grow stronger that Mr Hu will be replaced by the premier, Zhao Ziyang.

THE Chinese Government has announced that the number of goods this year with market-determined prices would not be increased.

Consumers have made clear recently that prices have risen too quickly. The Government is concerned that dissatisfaction could develop into social unrest and is tightening central control over food prices in particular.

The aim of price reforms has been to make the price of goods better represent the cost of production. However, a Government circular issued yesterday calls on authorities in larger cities to set ceilings on prices of several items subject to market prices, such as meat and eggs.

China's official inflation rate is around 8 per cent, but diplomats suspect that the real figure could be twice that.

Egypt and IMF to renew talks on economy

By Tony Walker in Cairo

A TEAM from the International Monetary Fund is back in Cairo to renew talks on support for Egypt's troubled economy.

IMF officials say that the two sides would be working on a "letter of intent" on Egypt's proposed economic reforms to be sent to the Fund's board in Washington.

Egypt is under pressure to reform its multi-tiered exchange rate, increase domestic interest rates, and raise energy prices.

The World Bank, which is expected to contribute to a rescue package, believed that it had won an agreement that Egypt would increase prices of kerosene, fuel oil and electricity early this year, but the increases did not materialise. Egyptian officials now say the rises will be in place by March 31.

Western officials in Cairo are concerned that the increase in international oil prices may become a pretext for Egypt to delay overdue economic reforms.

An IMF official was told informally by the Paris Club late last year that sovereign creditors would agree to a rescheduling of Egypt's government-guaranteed debt.

Egypt's foreign debt, according to the IMF, totalled $38.6bn (£26bn) by the middle of 1986. Egypt has experienced a rapid build-up of arrears on its debt service payments since 1982.

Iran's promised 'final offensive' may not end Gulf war

BY BARBARA SLAVIN IN BAGHDAD

WAITING FOR Iran's "final offensive" in the Gulf War is beginning to seem like waiting for Godot.

Diplomats in Baghdad thought the climax was near when, a week into a concerted push on the key southern city of Basra, Tehran appeared to open a second front in the central sector.

However, the night attack, 70 miles east of Baghdad was a limited operation, according to both sides, in which regular Iranian troops retook several hilltops on their side of the border that had been captured by Iraq early in the six-and-a-half-year war.

Iran has been threatening a final offensive for so long that some observers have begun to doubt one will materialise, at least in the apocalyptic fashion Iranian rhetoric would suggest.

The consensus in Baghdad is that a final offensive will come—if it has not started already—before the end of the winter and the Iranian calendar year on March 20.

One Western diplomat said: "Not to attack by the end of the winter season would be a very serious psychological setback for Iran. If the Iranians can't do it this winter when will they be able to do it again?"

Iraqi officials define a final offensive differently. They say it began last September with a series of offensives that, until the latest fighting, they have contained. Foreign analysts say the Iranians, with up to 650,000 troops along the border, are holding back. Their view of a final offensive is when Iran attacks in the central sector to draw off some of Iraq's superior airpower and armour, a larger force attacks across the Huwaizah marshes north of Basra, aiming to cut the highway between Basra and the capital, and the main invasion force moves on Basra from the south, including troops from the Faw peninsula captured by Iran last February.

They list other elements, some of which have been evident in the past week. Iran has resumed missile attacks on Baghdad after a six-week gap. Iran's small air force has also been more in evidence—perhaps because it now has its US-supplied spare parts.

Its ground forces armed with American TOW anti-tank missiles, have reportedly also performed better against Iraqi armour, making it more difficult for the Iraqis to dislodge them from positions around a man-made water barrier about 6 miles east of Basra.

The Iranians have shown considerable flexibility in previous battles and have been able to exploit a break in the Iraqi lines.

Western diplomats say the Iraqis learned many lessons at Faw and will be harder to surprise this time, as they showed when they quickly defeated a limited Iranian offensive near Basra on Christmas Eve.

Iraq has also been making better use of its air advantage (500 planes to 70 for Iran, not counting the new Chinese planes), flying lower on bombing runs and taking more risks. However, Iraq lacks the forward air controllers common to western air forces that enable quick co-ordination of air support in the thick of battle.

Most diplomats are sure Iraq will be able to contain a new offensive. "They may initially concede some ground, allowing the Iranians in for 20 to 30 miles, and then clobber them," one said.

Should a big offensive happen, Iraqi and foreign analysts agree it is unlikely to be the "final" one heralding an end to a war that has already gone on longer than any conventional conflict this century.

HK banks cut prime rate

BY DAVID DODWELL IN HONG KONG

LEADING BANKS in Hong Kong yesterday cut their prime lending rate by 1½ percentage points to 5 per cent to halt speculation that the government was about to break a three-year link between the US dollar and the Hong Kong dollar.

Local interest rates are at their lowest since May 1978. Interest on local savings accounts are down to 1½ per cent.

Speculators have been buying Hong Kong dollars recently convinced that the progressive weakening of the US dollar would force the Hong Kong Government to adjust the exchange rate.

Speculation has been fuelled by US Government complaints that currencies in a number of Pacific economies are being kept artificially weak as a means of helping local exporters to win sales in the US market.

The Hong Kong dollar has been linked to the US dollar at a rate of HK$7.8 to $1 since a politically induced economic crisis triggered a run on the Hong Kong dollar in November 1983.

At the close of trading in Hong Kong yesterday, dealers were offering HK$7.76 to $1—the strongest level recorded for the Hong Kong unit in almost three years.

Pretoria says US journalist can stay

By Jim Jones in Johannesburg

THE South African Government has reversed a decision to expel Mr Michael Parks, correspondent for the Los Angeles Times after meetings in Cape Town between Mr Stoffel Botha, Home Affairs Minister, Mr Parks, his Editor-in-Chief, Mr William Thomas, and his Foreign Editor, Mr Alvin Shuster.

● South Africa's black National Union of Mineworkers will not be allowed to hold strike ballots on four gold mines managed by Gold Fields of South Africa. The Rand Supreme Court decided in favour of GFSA which agreed last October to allow strike ballots on three gold mines on which the NUM was recognised but which refused to allow ballots on another four where the union was not recognised.

The key to recovery lies in an end to the war, **Andrew Buckoke** reports from Khartoum

Sudan performs an uncertain balancing act

IT IS hard to believe that Khartoum is the capital of Sudan, a country suffering from the ravages of civil war, the after-effects of famine and more than $13bn debt. Its income from exports last year is expected to be about $250m.

There are almost continuous traffic jams on largely pothole-free roads, a lot of new buildings, plenty of good bread, video libraries and a reasonable selection of imported consumer goods, while the black market offers a premium of less than 20 per cent on official exchange rates.

This is partly the result of scarce resources being diverted to keep the townspeople happy—their strikes and demonstrations were the main instrument in the downfall of President Jaafar Nimeiri in 1985. But it also illustrates the success of Mr Sadiq el-Mahdi's government, elected last April after a year of transitional military government, in attracting foreign aid despite the huge existing debt.

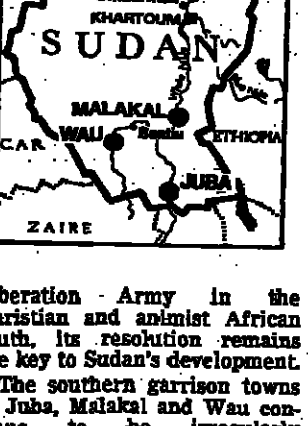
The desire of Western and conservative arab states, led by the US and Saudi Arabia, to keep Egypt's strategic neighbour free of Marxism, Islamic fundamentalism and the clutches of Libya and Ethopia, has overcome their reluctance to provide further assistance to a country which has no intention or ability to come to terms with the International Monetary Fund, to which it is $400m in arrears, or service its existing debt.

Dr Bashir Omer, the Finance Minister, in his June budget limited debt service payments to $208m or 25 per cent of the amount due. His long term solution to "the enormous volume of our economic problems" relies upon donors writing off or rescheduling their loans.

While the aid, particularly free oil from Saudi Arabia and Kuwait, is keeping the country moving, Western diplomats fear that official price fixing for basic commodities, restrictions on imports, the overvaluation of the Sudanese pound and the general interventionist tendency of the Government may strangle any recovery.

But it would be political suicide to give free rein to the merchants' traditional pursuits of hoarding, speculation and price fixing. Inflation is already about 50 per cent and the November student demonstrations in Khartoum sought—this time without success—to take political advantage of the shortages and high prices of meat and sugar, caused by the merchants' refusal to sell at official prices.

Though most people in the Moslem, Arabic-speaking north ignore the three-year-old war against the Sudan People's Liberation Army in the Christian and animist African south, its resolution remains the key to Sudan's development.



The southern garrison towns of Juba, Malakal and Wau continue to be irregularly blockaded. Although military aircraft, river barges and truck convoys periodically get through, they are now probably the only places in Sudan threatened by large-scale starvation. Information on the hinterland is sketchy, but the rains have been good.

The Americans, Kenyans and others are pressing both sides to resume negotiation—broken off when a civilian airliner was shot down by the SPLA in August—under their mediation. Mr Sadiq says he aims to push through a constitutional amendment diluting the effect of the Islamic *sharia* legal code, whose imposition by Mr Nimeiri in 1983 led to the resurgence of the civil war. However, both initiatives are fraught with uncertainty.

Though Mr Sadiq is believed to accept the idea of mediation, other members of his government dismiss it. Foreign Minister Sharif el-Hindi says the SPLA are "outlaws and it is their problem to find a solution." Mr Sadiq insists the SPLA demonstrates its independence from Ethiopian control before "serious negotiations" can take place, and has blamed the continuation of the war on "foreign interference."

The main obstacles are internal. The key constitutional amendment proposed, that *sharia* be replaced by a combination of Islam, Christianity and other religions as the source of legislation, falls far short of the demands of both the SPLA and the southern parties within the Government coalition.

At the same time, the Democratic Unionist Party, the biggest party in the coalition after his own Umma Party, has many members who might vote with the Islamic National Front, the party of the Moslem Brotherhood, which opposes any dilution of *sharia* and represents the most serious threat to the Government within the northern Moslem majority.

These are not the only complications. The war has an increasingly tribal character. The SPLA is mainly drawn from the Dinka majority in the south and the army has armed militias from the Nuer, Shilluk and other tribes that fear Dinka domination to fight as its proxies, with the result of frequent atrocities and self-sustaining vendettas.

The immediate economic gains of a settlement would not be great. The huge digging machines for the Jonglei canal to drain the Sudd swamplands and increase flows lower down the Nile have been severely damaged. The southern oilfields around Bentiu would not be viable at an oil price of less than $24 a barrel and Chevron, which has already spent over $1bn in Sudan, would probably not resume activities there even if the war ended.

But a settlement is essential for the long term stability and prosperity of Sudan. Mr Sadiq has to balance the demands of the SPLA and the IMF before he can achieve a settlement, in the knowledge that the army might intervene at any time in the name of strong government.

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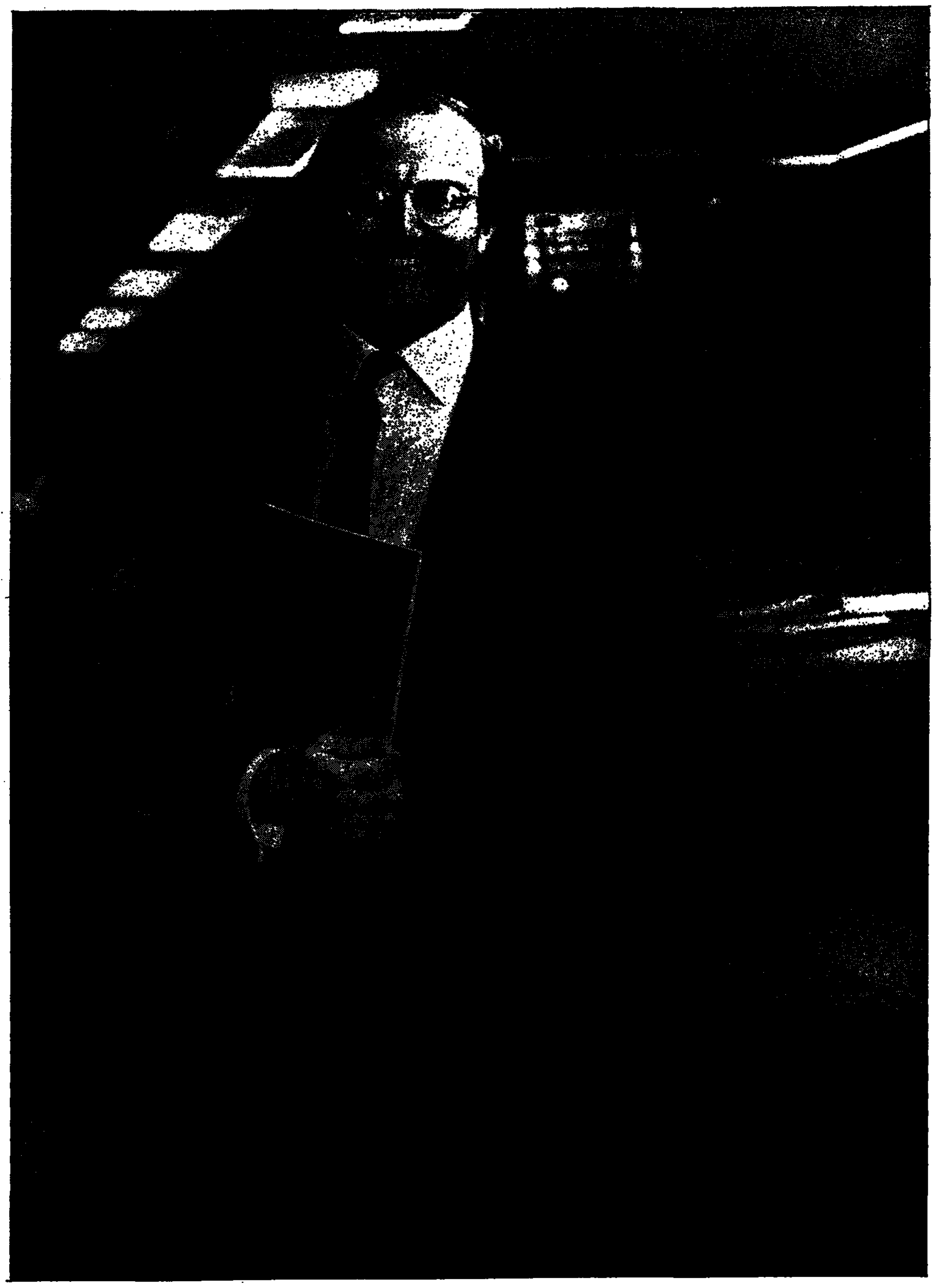

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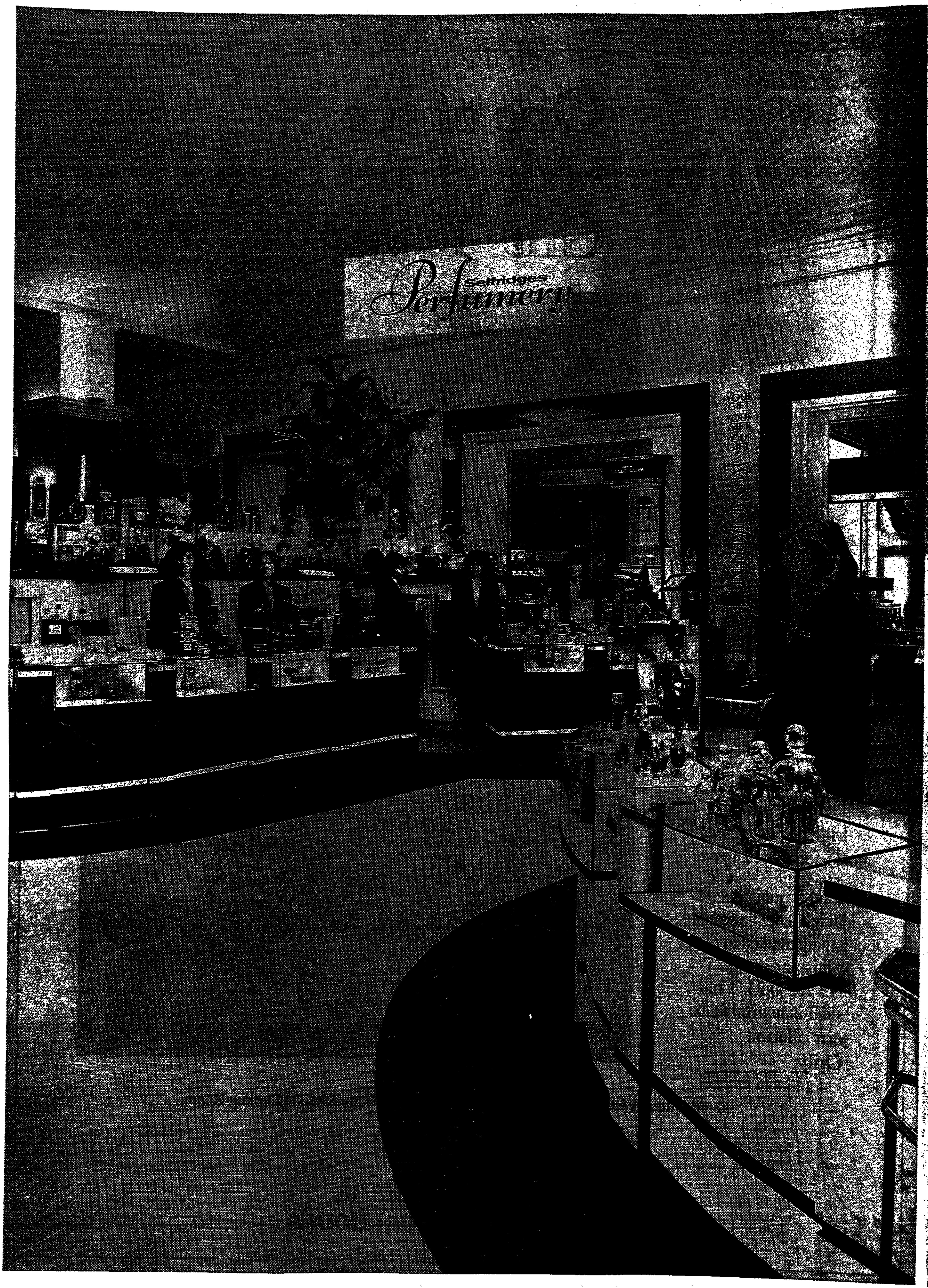
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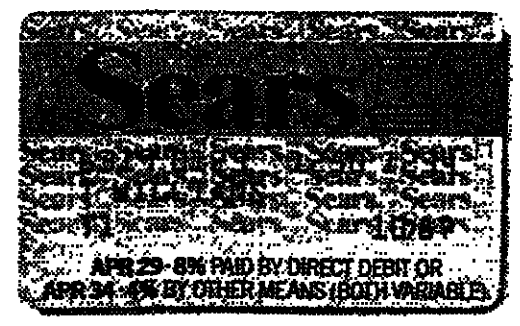

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WORLD TRADE NEWS

Talks sought on US-Scandinavia air fare war

BY SARA WEBB IN STOCKHOLM

COMMUNICATIONS ministers from Sweden, Norway, and Denmark have requested meetings with the US State Department to discuss the latest price war on air fares between Scandinavia and the US.

At the same time, they are expected to press for more destinations in the US for the Scandinavian airline, SAS, which is 50 per cent owned by the three Governments.

The ministers met earlier this week to discuss whether to stop Tower Air, a US carrier which operates flights to a few destinations in Europe, from selling cut-price tourist fares through the Danish tour operator Tjaereborg for the New York-Copenhagen route, due to start operating on March 6.

Tjaereborg is offering Tower Air bulk return flights (Copenhagen-New York) for DKr 2,200, less than half the SAS off-season tourist fare of DKr 4,900.

Tower Air wants to offer similar cheap flights on the Oslo-New York route and plans to submit an application to the Norwegian authorities within the next few weeks.

The Danish authorities so far have withheld approval of the bulk fare but approved several other Tower Air fares last December, including the business class which does not undercut the comparable SAS fare.

Tjaereborg has already sold about 10,000 bulk fare tickets worth DKr 35m, including hotel charges. Meanwhile, Northwest has applied to reduce its fares on the New York-Copenhagen route.

The communications ministers have not decided yet whether to stop Tower Air, but want to raise the issue of price competition with the US authorities.

SAS has asked the ministers to press for "equal opportunities in the US market," where it feels it is at a disadvantage. At the moment, SAS flies to four destination in the US—Chicago, New York, Los Angeles, and Seattle—but would dearly like to reach Atlanta, which it believes to be an important destination for Scandinavian businessmen.

Falling $ helps transform Italy's trade balance

BY JOHN WYLES IN ROME

ITALY'S trade balance was transformed last year by low oil prices and a falling dollar which helped to cut the deficit to around L5,000bn (£2.5bn) from L23,000bn the year before.

Revealing these preliminary figures to a parliamentary committee yesterday, Mr Rino Formica, Minister of Foreign Trade, added that falling domestic inflation had helped to contain Italian production costs and increase competitiveness in overseas markets.

He said that the current account will have finished 1986 with a surplus of about L9,000bn, while the balance of payments as a whole is expected to finish in a deficit of between L1,000bn and L2,000bn compared to L8,452bn in 1985.

Italian exports had risen from $105bn (£75bn) in 1985 to $142bn and forecasts for this year suggest that they may reach $180bn, Mr Formica said.

Renault-Soviet truck deal

BY PAUL BETTS IN PARIS

RENAULT Véhicules Industriels (RVI), the large truck subsidiary of the French state-owned Renault car group, has signed a FFr 62m (£6.7m) engineering contract with Gorki Automobilny Zavod (GAZ), the Soviet truck manufacturer.

The French group will provide engineering services to the Russian company for modernising GAZ's truck assembly operations, involving 110,000 vehicles a year.

David Dodwell reports on an inspired plan which has won the backing of two powerful groups

Visionary's airport plan takes Hong Kong by storm

Mr Gordon Wu, head of the construction group Hopewell Holdings, friend of China and visionary, has set imaginations alight in Hong Kong over the past week with an ambitious HK$25bn (£2.16bn) plan to redevelop large tracts of the western parts of Hong Kong.

The plan envisages a new airport (with a choice of three sites), port facilities, an underground railway and major spinal roads linking Hong Kong Island, the western New Territories and the Chinese mainland. The target is to have everything complete by 1992, giving investors an assurance of five years of healthy profits before China regains sovereignty over Hong Kong in 1997.

The most remarkable aspect of the plan so far is that a number of officials, an army of stockbrokers and most local newspapers have taken it seriously. The one factor that gives it credibility is the open, but unspecified, support of Cheung Kong and Hutchison Whampoa, two of Hong Kong's most powerful groups, controlled by Mr Li Kashing.

In the words of one senior government official: "The only thing that stops me from throwing the idea out of court is the knowledge that Li Kashing doesn't back losers."

The element of Gordon Wu's plan that has set imaginations alight is his proposal for a new airport to replace Kaitak, the congested one-runway airport in the heart of urban Kowloon that has become one of the busiest in the world as Hong Kong has increased in importance as a communications centre.

Government plans to build a replacement airport north of Lantau Island—the most likely location for the airport proposed by Gordon Wu (site A on the map—were dropped in 1983 at a time of acute anxiety over the territory's future. At the same time, government spending appeared to be rising out of control and the price tag for the project was predicted to be at least HK$35bn. One of the factors allowing the government to put the project on the back burner at that stage was the increasing use of Boeing 747s and other wide-bodied aircraft, which meant that steeply-rising passenger volumes did not lead to a similar steep rise in aircraft movements.

Every year since then, officials in the colonial government's Economic Services Department have taken down the plans, compared them against latest air traffic movement projections and decided that the need for a replacement airport is not urgent. Current projections suggest Kaitak will reach saturation by the year 2005, though careful traffic management will be necessary after 1995 and might cause some carriers inconvenience.

Gordon Wu's proposals do not challenge any of the Government's projections, but suggest that the administration would be foolish to look a gift-horse in the mouth. It is being offered an airport at no cost to itself, as well as massive infrastructural development in the remote western parts of Hong Kong that would take pressure off the congested urgan centre of Kowloon.

The proposal would be more credible if it had started with the intention of building an airport and developed from there to provide the ambitious package being offered today. It started, however, with Gordon Wu's need to honour promises to build a "super-highway" — Chinese hyperbole for a simple four lane metalled road — from China's land border with Hong Kong up to Guangzhou (Canton) and down the western side of the Pearl River delta to Macao.

Gordon Wu has been talking of starting work on this project for at least three years, but still cannot convince bankers that he could make the project pay. He proposes charging tolls on users of the road, but his projections of traffic volumes are regarded as optimistic and unverifiable. Mr Wu's inspiration was to realise that if he won agreement to continue the "super-highway" into the west of Hong Kong, link it to the airport and on to Hong Island, he would be certain of heavy traffic flows that would underpin his toll income. Add port facilities and wide-ranging industrial development alongside the new road network and you enhance traffic flow still further.

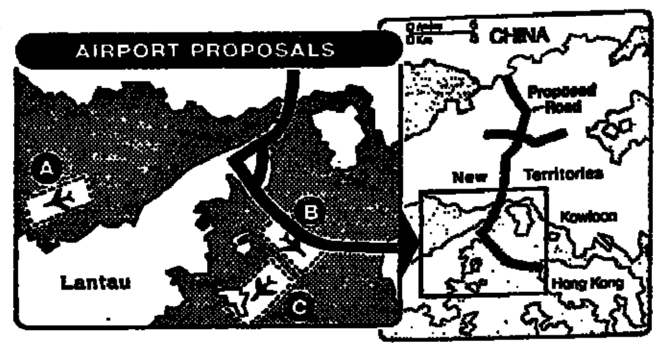
"There can be no denying that the plan is inspired," said one official. "He is offering the airport and a lot more besides, and at two thirds of the price we expected to pay three years ago for an airport alone."

So far, no-one has had opportunity to check the many assumptions that underpin Mr Wu's proposal. It is also clear that such a grand project would need heavy government involvement, at least at the planning and approval stages. A senior government economist noted: "It is such a large project that the Government has no way of seeing it as a purely private venture. It has a major impact on the total infrastructure and runs across a number of plans already on our drawing boards."

Assurances over financial backing for the proposals would be checked carefully, because of government worries that if the consortium responsible for the project was to flounder after work had begun, then it would have little choice but to bail it out.

"We would certainly not be thanked for giving the green light and then finding ourselves holding the baby at a cost to taxpayers of billions of dollars," one official commented.

It is unclear what existing port operators will think of having to move operations—especially those that have been investing large sums in improving facilities over the past year—but the Government will undoubtedly want to consult closely with them.



A critical question then will be whether the package has to be taken as a whole, or whether it will be possible to take up bits of it without going ahead with others. Gordon Wu has shed no light on this so far, but if he insists the Government must take it or leave it as an indivisible package, then the chances of it materialising quickly—or at all—are probably small. Gordon Wu claims he has full backing from China for the project. He also revealed this week that he will be travelling to Peking next month for talks with officials there on possible involvement in the project. There is no question that support from China would be essential—not just in words, but also in terms of financing and probably equity participation.

The Hong Kong Government has long since recognised that any project of this scale would involve commitments stretching beyond 1997 and so could not be approved without discussion with, and support from, Peking. China has its own plans for the development of aviation in south China in general, and the Pearl River delta in particular. The Shenzhen Government in the special economic zone adjoining Hong Kong claims it has backing for an international airport and it is doubtful that these plans have been reconciled with those of Gordon Wu.

A further tangle would be that the Sino-British declaration on Hong Kong's post-1997 future puts a 50 hectare limit on the amount of land that can be developed in the territory in any one year. Gordon Wu's plans would involve a great deal more land than this, and would need specific discussion in the Sino-British Land Commission. It cannot be assumed that the Commission would refuse a specific request for a waiver, but discussion would inevitably result in bureaucratic delay. Even if one gives Gordon Wu the benefit of the doubt on the viability of the package, and his ability to deliver it, his hopes of completion by 1992 appear unachievable.

This sits uncomfortably with Wu's pressing need to get on with the Canton "super-highway," may undermine vital assumptions on financing and trim to two years the leeway backers have to reap profits before China regains sovereignty over Hong Kong. So in spite of the excitement caused in Hong Kong over the past week by his proposals, they may never become more than a twinkle in a visionary's eye.

Australian wine scores in EEC

BY CHRIS SHERWELL IN ADELAIDE

AUSTRALIAN wine producers scored astonishing gains in fledgling European and North American export markets last year, taking advantage of the country's weakened currency and enhanced foreign consumer interest.

Figures for the 12 months to December published by the Australian Wine and Brandy Corporation, a statutory body responsible for promoting exports, show a 74.7 per cent increase in volumes of wine shipped to 16.3m litres.

The biggest percentage gains were seen in the US (107 per cent) and Canada (74 per cent), although North America accounts for only a fifth of total shipments abroad.

In Europe, the main advances were seen in Britain, which took 86 per cent of exports to the European Community, and in Sweden.

A turnround has also been seen in Japan, where a difficult market has been made more tricky by confusion of Australian with Austrian wines. Austrian varieties were at the centre of a scandal over chemical additives.

The scale of the 1986 increases is exaggerated by the fact that they are measured from a small base. Even now, exports comprise only 5 per cent of overall Australian wine production and will earn only some A$30m (£13.6m).

But for individual wineries, they are valuable sources of income and profit. Along with the emergence domestically of the wine "cooler"—a mixture of wine and fruit juice—they are also regarded as an important outlet for Australia's surplus production.

Wine exporters report that business has improved considerably as a result of the heavy depreciation of the Australian dollar.

Short-list for trade mark office

BY TIM DICKSON IN BRUSSELS

THE EUROPEAN Commission has now short-listed four major cities among the 10 which applied to "host" a new EEC Trade Mark Office.

But in an effort to cut the costs of such an operation, it has asked the member-states concerned to submit cheaper bids.

The issue is generating considerable political heat in Brussels, for although no more than a couple of hundred jobs are likely to be at stake the prestige of "winning" the first new Community institution for at least five years would represent a notable coup for most of the contenders.

Only Portugal and Denmark among the 12 EEC member-states declined to offer a site for the new Office, which is expected to open by the end of this year at the earliest, or some time in 1988.

The Commission quickly ruled out cities in peripheral states—Dublin and Thessalonika for example on the grounds that they would be impractical. It has narrowed the field to—London, Munich, Madrid and The Hague.

London and Madrid would be largely political choices — neither city is yet the home of a fully-fledged Community institution — but Munich and The Hague are already centres of intellectual property.

The Commission's aim is that the new Trade Mark Office — which would follow the Internal Market Council's likely adoption of a single procedure and Common European law this year—will be largely financed by the fees of companies registering their trade mark.

London is understood to be a strong runner in the race, but Commission officials say that the proposed site, at St Katharine's Dock, is currently one of th emost expensive.

Lewis resigns as Smith New Court executive

BY NICK BUNKER

MR TONY LEWIS, the best-known and possibly the best-liked jobber in the Stock Exchange, is stepping down in April from his post as executive chairman of Smith New Court, London's biggest independent market-maker.

Mr Lewis will become non-executive chairman of the group, which he joined after leaving school in 1949.

Mr Geoffrey Lederman, head of Smith New Court's UK equity trading, will become joint chief executive with Mr Michael Marks, who runs its international side.

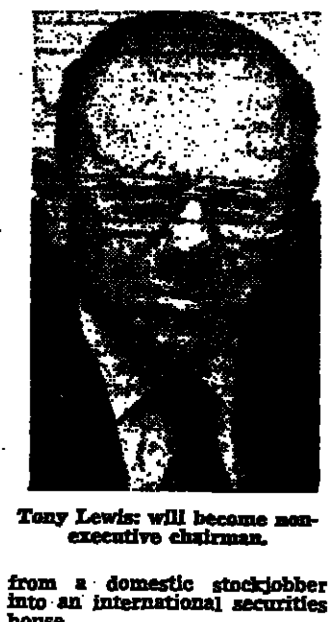
Mr Lewis was swift to rebut any suggestions that his semi-retirment was a response to business problems encountered by the firm since October's Big Bang stock market reforms.

In November, the rapid decline of the traditional Stock Exchange floor as an arena for dealing in securities forced Smith New Court to abandon its defiant policy of maintaining a sizeable trading team there. Since then, the firm has moved most of its front-line staff to telephone dealing rooms.

There were "no business reasons" for his departure, Mr Lewis said. It also had "absolutely no connection" with recent disclosures that Smith New Court failed to inform shareholders about a generous financial aid package for directors.

"I am fifty-nine and a half—we normally retire at 60," Mr Lewis said. There were personal reasons for his decision to step down, he said, adding: "I want to spend more time with my family."

He pointed to the need for a change in management style at Smith New Court, which has been trying to transform itself from a domestic stockjobber into an international securities house.



Tony Lewis: will become non-executive chairman.

Smith Brothers, the jobbing firm with which Mr Lewis spent 30 years as a floor trader, merged in 1984 with Scott Goff Layton, the stockbroker, to form the Smith New Court group.

"I have been chairman and chief executive for 11 years," Mr Lewis said. "Every decision had to come across my desk. But the company has expanded to the point where it needs a more diversely run management."

He said he would be "falling to do a proper job" if he stayed on as executive chairman because no one man had the global knowledge required to run all the group's activities.

Industry 'must fight to survive competition'

By David Churchill

SIR GORDON BORRIE, director-general of Fair Trading, last night made clear that British companies had to survive in the international marketplace and could not rely on government bodies to protect them from overseas competition.

Sir Gordon, in a policy statement given as the 1987 Stockton Lecture at the London Business School, stated that UK companies "have to grapple with rivals in overseas markets to survive."

Sir Gordon's comments follow criticisms from the Confederation of British Industry that the Government is too parochial in its policy towards mergers. He said UK companies were unlikely to do well abroad "if they are indefinitely cosseted at home by cartels or monopolistic privileges."

The Office of Fair Trading determines whether UK mergers should be referred for further investigation by the Monopolies and Mergers Commision. Criticism of its methods has led to a government review of the merger and competition policy. That review is likely to be completed this year.

Sir Gordon's comments suggest that the Government is unlikely to favour any broadening of the present policy towards mergers.

That policy favours referral to the Monopolies and Mergers Commission if the merger is likely to inhibit competition in the UK marketplace. It does not usually refer to international competition.

However, Sir Gordon pointed out last night that there might be cases where international factors were important. "Existing legislation provides procedures by which the evidence can be assessed and any possible conflicts between the promotion of competition at home and the success of British firms in international markets can be investigated."

He added that there might sometimes be "good justification for eliminating whatever competition there is in the UK market in order to gain something for the UK in export markets."

In the GEC and Plessey merger, Sir Gordon suggested that the monopolies commission was right to insist that GEC "make out their case on the facts of their products."

He added: "GEC did not succeed and I do not think there are likely to be many instances where such a case can be made out. I am a sceptic as far as bigness is concerned."

Sir Gordon, in a wide-ranging policy speech, suggested that British industry should take a more questioning attitude towards the merger activity of the last 18 months.

Leading accountants attack DTI's auditing proposals

BY RICHARD EVANS

MANY OF the Government's proposals for the regulation of auditors would be costly and damaging to business, accountancy profession leaders said yesterday.

A campaign to head off the Government's more radical options on regulation was launched jointly by Peat Marwick and KMG Thomson McLintock, set to become the UK's largest accountancy firm when they merge on April 1.

Together with others in the profession, the firms are concerned at aspects of the Government's consultation paper published in August, particularly the options to split audit work from other accountancy services.

The two firms suggest in their paper The Freedom to Advise, that the Government should restrict itself to the implementation of the European Community's eighth directive on auditors rather than seek radical changes.

Mr Alan Bardcastle, a Peat Marwick partner, said: "We are horrified at some of the further, bureaucratic regulations outlined by the Department of Trade and Industry. It is the lack of persuasive argument that convinces us that the best way forward is to build on the self regulation we already have."

Four main risks identified in the DTI proposals are greater costs and restricted choice for clients, reductions in the quality of service, and the loss of appeal to potential recruits of accountancy as a profession, with a consequent lowering of standards.

The prospect of compulsory rotation of auditors every five years is severely criticised. The document says: "The disruption and inefficiencies arising . . . would lead to considerable extra cost to clients and could make the audit process less effective because of lack of continuity."

James Buxton on the cost of manufacturing decline and low oil prices

Scottish economic optimism in short supply

WORKERS at the Caterpillar plant at Uddingston, near Glasgow, yesterday rejected an appeal by management to call off their occupation of the factory, but after a lengthy meeting the plant's middle management decided not to block the sit-in designed to block production and the removal of equipment and components.

It is not difficult to understand the anger of the workforce, and the embarrassment of Mr Malcolm Rifkind, Scottish Secretary, who only two weeks ago singled out Caterpillar's investment programme in his New Year message to Scotland.

But although the Scottish Office will be trying desperately to salvage what it can at Uddingston, it is now even harder to generate optimism about the immediate prospects for the Scottish economy.

Two negative factors are at work: the continuing decline in many sectors of manufacturing industry, and the dire effects of last year's collapse in the oil price.

One third of all Scottish jobs in manufacturing — about 240,000—disappeared between 1974 and 1985, and the decline continues.

Ministers claim, with some justification, that many of these job losses were the result of rationalisation which led to increased productivity. But several manufacturing sectors in Scotland are mere shadows of what they once were.

Shipbuilding, hanging on by a thread in the non-warship sector, is an obvious example. However, Scotland has also lost nearly all its vehicle industry, with the closure last year of the Leyland plant at Bathgate—and the announced closure of the British Rail Engineering railway engine and coach building and repair works in Glasgow.

In another engineering sector, Babcock Power of Renfrew announced last month that it was calling for 620 redundancies because of insufficient orders for power generating equipment.

Caterpillar's 1,200 workers represent about 2 per cent of employment in the mechanical engineering industry, and about 20 per cent of engineering employment in the depressed Motherwell area.

The Scottish CBI reckons the company's closure would destroy the same number of jobs again among its Scottish sub contractors.

This comes as the engineering industry is being seriously hit by a drastic fall in North Sea oil development work. This fall is expected to destroy up to 33,000 jobs in all sectors by early next year—unless the oil-price recovery is sustained.

Several oil related engineering companies are only just surviving: already Scott Lithgow is laying off 1,600 workers, the Howard Doris fabrication yard is in receivership and Kestrel Marine, a Dundee fabricator is laying off 500.

When the Scottish office put out its regular economic bulletin earlier this week, it said it expected no growth this year in sectors such as steel and metal-using industries.

There would be modest expansion of output in fields such textiles, clothing, food and timber processing, but most output growth was expected to occur in high-technology sectors, such as electronics, chemicals and aerospace.

Had it not been for the doubling of output by the electronics industry—which employs more than 40,000 people—overall output of Scottish manufacturing industry would have declined between 1979 and 1985, instead of remaining static.

Yet the recent decision of Unisys to close the former Burroughs plant at Cumbernauld, near Glasgow, with the loss of 360 jobs was a reminder that electronics is not always a reliable industry.

Like the Caterpillar decision, the Burroughs plant closure was made not in Scotland but in the US.

About a fifth of Scotland's industrial workforce — about 70,000 people — work for affiliates of multinationals. With the shadows falling on the Uddingston factory, it is not surprising that Scots are once again aware of the dangers of relying heavily on branch plants.

Caterpillar cocoons itself against cool business climate

Nick Garnett examines the factors behind the closure of a construction equipment factory

THE DECISION by Caterpillar to close its crawler tractor manufacturing plant at Uddingston, near Glasgow, as well as two facilities in the US, shocked the construction equipment industry yesterday.

"I am totally surprised," said one equipment distributor. "It seems an astonishing about face."

Less than four month ago, Mr Pierre Guerindon, executive vice-president in charge of manufacturing, gave a long interview explaining Caterpillar's \$1bn (£660m) 10-year scheme to update production at its 30 sites world-wide.

Beside him sat Mr Ken Robinson, factory manager at Uddingston, who had just announced a £62m investment there as part of Caterpillar's Plant With a Future programme.

That title now has a sick irony in Scotland and at Davenport, Iowa, and Dallas, Oregon. The closure of the two US plants will cost 1,700 jobs and 1,200 will go at Uddingston out of Caterpillar's total workforce of 54,000.

Within weeks of the Guerindon interview Caterpillar decided it had to shut some facilities. It had fallen into the red during the third quarter of last year and was downgrading some profit estimates.

Uddingston, which had already received about £12m in the investment programme, Davenport and Dallas were earmarked by company headquarters in Peoria, Illinois, with a one-off closure cost of £109m.

One senior official within Caterpillar said yesterday: "This smacks of panic."

The Scottish closure has infuriated the Government distressed the workforce and unions. The company had a reputation for paternalism during times when it could afford to have. Now it has a more hard-headed approach though it claims to spend more money and time on employee information.

The loss of Uddingston, where principally the D6H crawler tractor is made where more than £30m has been spent on machine tools including some of the best purpose-built equipment, will be a big blow to the UK construction equipment industry. The plant employs almost as many people as JC Bamford in the UK, Britain's leading maker of earthmoving equipment.

Plant closures are not new to Caterpillar. After the boom in the 1970s for earthmoving equipment, the market suddenly declined by more than 30 per cent at the turn of the decade.

In a series of defensive moves, Caterpillar—with losses of \$1bn—shut six plants, including its site at Birtley, in the north-east, cut its workforce from 89,000 to almost its present level and its floor space from 45m sq ft to 33m sq ft.

Although its costs were still at least 15 per cent above those of Komatsu, its Japanese arch rival, things seemed to be looking up. Caterpillar made a profit of \$198m in 1985 and \$250m in the first half of 1986.

This slipped into a loss of \$26m in the third quarter, the company blaming several factors including a month-long strike at one US plant and the cost of operating plants that were not fully loaded. It lowered its profit outlook, too, though it says it will be in the black for the full year.

This downturn in overall trading performance—though Caterpillar says demand is flat rather than declining—appears to have pushed it into much more drastic measures than it was contemplating at the end of last year.

The company seems to have selected Uddingston because in its increasingly urgent drive to cut costs it says it is a plant from which production can be transferred. Davenport also makes the D6H tractor, so the closures will involve shifting all output of this model to another as yet unspecified plant.

Dallas makes rough terrain lift trucks and this production will also be transferred.

Caterpillar is not alone in suffering problems. Many companies, including Japanese producers, are increasingly seeking partnerships to help them cope with an industry with 40 per cent over-capacity. Recently Caterpillar signed a production deal with Mitsubishi; Hitachi with Fiatallis; and Komatsu with the Brown group in the UK.

More closures of construction equipment factories in Europe and the US seem certain though. Caterpillar warns that it is continuing to "evaluate its needs."

Aviation authority rejects challenge to BCal route

BY LYNTON McLAIN

THE Civial Aviation Authority yesterday rejected an application by British Airways to replace British Caledonian Airways on the route between London and Atlanta, in the US.

BA, the state-owned airline to be privatised by the first week of February, had accused BCal and its partner on the Atlanta route, Sabena, the Belgian national airline, of "a series of unlawful acts" in their joint operation of the service.

BA maintained BCal, the British licence holder, was not operating the route and was not using its own licence. BCal used a Sabena Boeing 747 for its joint operation.

Mr David Coltman, managing director of BCal, said the airline was delighted but not surprised by the CAA decision.

He said: "In operating a daily 747 service in association with Sabena, BCal has opened a new dimension in international airline competition and proved we can serve the London-Atlanta route more adequately and comprehensively than BA proposed in its bid to take over the licence."

BCal would have reverted to a BCal only DC-10 service if the joint service with Sabena had been ruled out. It is to continue daily 747 services on the Brussels - London - Gatwick-Atlanta route, and will supplement these services with additional BCal DC-10 flights in the summer.

The CAA had not challenged BCal on its change to a joint operation with Sabena.

Airlines attack BAA charges

By Lynton McLain

TWO LEADING US airlines, Pan-Am and TWA attacked BAA, the company formed from the British Airports Authority in readiness for privatisation, over the level of charges likely when it is sold.

The airlines said BAA was already overcharging all airlines by £31.6m a year. Under a formula agreed by the Government, the overcharge would double to £71m a year.

The airlines threatened to seek a resumption of litigation in the UK courts unless action was taken to reduce the charges.

The airlines said the formula breached the UK/US air services agreement and a memorandum of understanding signed by the two governments in April 1983.

Unisys picks Livingston for European repair centre

BY TERRY DODSWORTH, INDUSTRIAL EDITOR

UNISYS, the US computer group formed from the merger of Burroughs and Sperry, plans to centralise its European repair centre at Livingston in Scotland. More than 50 jobs are expected to be created.

The expansion forms part of the reorganisation the merged group is undergoing as it brings together identical functions from its constituent companies.

Sperry had a repair and refurbishment plant at Livingston. Given the merger, the volume of activity at the plant will at least double, and over the longer term there are plans to move to an even larger building to raise output even more.

Large computer companies are normally involved in the repair and refurbishment business because there is a thriving business for secondhand components in the industry. The company said yesterday that the repair and parts operations from European locations will be progressively brought into Livingston.

The new jobs will provide a limited counterbalance to the 360 redundancies announced by Unisys at its Cumbernauld plant in Scotland early last month.

Cumbernauld, near Glasgow, is within easy driving distance of Livingston, which is located further east, and the company said employees who were losing their jobs would be high on the list for consideration in the expansion of the repair business.

Building societies face testing year

By Hugo Dixon

BUILDING SOCIETIES have entered 1987 with their ability to raise retail funds in question and their liquidity ratios squeezed, according to figures from the Building Societies Association yesterday.

As a result, societies will find it difficult to lend as much to home buyers this year as in 1986 and there are signs of a return to mortgage rationing.

Last year, net receipts from retail investors were £6.6bn, down from £7.5bn in 1985. At the same time, a record £19.1bn net (£14.7bn) was lent.

The gap was made up by record borrowing on the wholesale markets, which contributed a net £6.1bn (£3.1bn), and by running down liquid assets, which fell from 18.9 per cent of total assets to 16.4 per cent.

Societies' poor showing in the retail markets was mainly a consequence of increased competition from banks and the TSB and British Gas flotation. These resulted in funds out of savings accounts before a flotation and disappointed investors returning them afterwards.

Net retail funding in the months was £703m and £543m net was raised on wholesale markets. Gross mortgage advances fell for the fifth successive month to £2.9bn, partly because of mortgage rationing by societies and partly because of the increase in interest rates in the autumn.

Steel production shows 6.3% fall

STEEL production in the UK by the British Steel Corporation and the private sector was 14.7m tonnes last year, down from 15.7m tonnes produced in 1985.

The fall of 6.3 per cent in output largely reflected the relining last year o fa BSC blast furnace on Teesside. This required additional steel to be produced in 1985

Arctic weather leads to shortages and profiteering

BY NEIL BENNETT

FOOD SHORTAGES, closed shops, queues and profiteering were results of continuing arctic conditions in Britain yesterday.

Department stores struggled to keep their January sales open as they sold out of winter clothing.

Fresh fruit and vegetable prices soared in London's New Covent Garden wholesale market where traders said prices would reach double the seasonal average by the weekend, and shortages would continue.

Many areas of Kent have had no milk or bread delivered since Saturday. In Rochester, police are investigating reports that people in four-wheel-drive vehicles are selling food at inflated prices.

The Automobile Association warned drivers that garages were overcharging for anti-freeze.

Marks & Spencer said it was unable to deliver food to 12 of its stores along the east coast. Half of its stores closed early.

London's department stores experienced staff and customer shortages in the cold weather. In Harrods some departments had less than half their normal staff.

The store said sales were down 2 per cent on previous weeks. Harrods still took more than £1m on Wednesday, in spite of closing an hour early.

Selfridges department store, said there was tremendous demand for woollen clothing and thermal underwear. Sales of winter coats have doubled in the past two days.

Some businesses have been booming in spite of the weather. British Gas and the Central Electricity Generating Board faced record consumption this week. Thomas Cook, the travel agency, has had an unprecedented demand for winter sun holidays.

Travel services improved yesterday and British Rail said travel was possible on most routes.

Worst hit was southern region which said it was running trains where and when it could. The AA said the roads were much better.

Private sector 'buoyant'

BY CHARLES BATCHELOR

PRIVATELY OWNED companies are going through a buoyant period, according to an annual survey of the top 4,000 concerns published yesterday by Jordans, a financial information group.

Analysis of the 200 largest companies showed that the average return on assets had increased from 30 per cent to 31 per cent while profit margins went up from 4.1 per cent to 4.3 per cent.

Smaller private companies performed even better, with returns on assets averaging 35.3 per cent, compared with 33.4 per cent previously and profit margins rising to almost 5 per cent from 3.7 per cent.

The survey is based on financial returns for 1984 and 1985. However, because of the time needed to collect all the information, the position of some companies may since have changed.

While service and leisure companies tended to dominate the profitability league, manufacturing groups were also among the leaders.

Britain's Privately Owned Companies—The Top 2,000 and The Second 2,000. Published by Jordan & Sons. £60 each or £110 the pair.

Monetarists re-examine Keynes' theory

By Michael Prowse

THE RELEVANCE of Keynesian economics is assessed today in a volume of essays published by the free market Institute of Economic Affairs. The essays focus on Lord Keynes' best-known theoretical work, The General Theory of Employment, Interest and Money, published just over 50 years ago.

The general theory attempted to explain why high unemployment might persist in capitalist economies in spite of Adam Smith's "invisible hand"—the microeconomic forces which are supposed to balance demand and supply in all markets. The book provided a theoretical rationale for government intervention

The IEA essays are by economists of a free market or monetarist persuasion and broadly unsympathetic to Keynesian arguments. The UK contributors include Sir Alan Walters, Mrs Thatcher's former personal economic adviser, and Professors Patrick Minford, Michael Beenstock and Alan Budd. The US contributors include Professor Milton Friedman, the father of monetarism—the doctrine which temporarily eclipsed Keynesianism in the 1970s and early 1980s—and Professor Karl Brunner.

The contributors are most critical of the development of Keynesian economics in the decades following his death in 1946. Prof Friedman comments: "Re-reading the general theory has reminded me what a great economist Keynes was, and how much more I sympathise with his approach and aims than with those of his followers."

Keynes's General Theory: fifty years on—its relevance and irrelevance to modern times. Nobart Paperback 24. IEA, 2, Lord North St, Westminster SW1P 3LB. £5.50.

Editorial comment Page 16

UK NEWS

Government claims big jobs market turnround

BY PHILIP STEPHENS, ECONOMICS CORRESPONDENT

THE GOVERNMENT yesterday claimed a major turnround in Britain's labour market with the publication of figures showing the fifth consecutive fall last month in the official unemployment total.

The news of a 28,000 drop in the number of benefit claimants to 3,116,000 boosted speculation in political circles that the seasonally-adjusted total could fall below 3m by the early autumn, a favoured date for the next general election.

Government officials said that the underlying trend now points to a fall of around 20,000 per month, partly as a result of the special measures for the long-term unemployed.

Lord Young, the Employment Secretary, who is considering a further extension of the measures in the March budget, is believed to be privately confident that the total will fall below 3m. Yesterday he said that the latest figure was a landmark. He added: "Unemployment is now lower than a year ago. This is the most hopeful start to a year for many years."

Opposition leaders, however, accused the Government of "massaging" the figures before the general election. Mr John Prescott, Labour's employment spokesman, said: "Real unemployment is now well over 4m. The so-called reduction is a complete fraud. It has been achieved by putting over 750,000 people on special employment schemes."

The Unemployment Unit, an independent pressure group for the jobless, predicted that the total would fall below 3m in time for an autumn general election. It added, however, that more than two-thirds of the fall would be accounted for by further expansion of special measures or tightened eligibility rules for claimants.

The extent to which the recent sustained fall reflects an underlying improvement in the labour market has been clouded by the official schemes and by changes in the composition of the figures. The Community Programme, for example, has been taking around 5,000 people off the register in each of the last few months.

A significant part of the reduction, however, does appear to be attributable to the pick-up in the pace of output growth since last summer. The upturn in the economy has been reflected in substantial increases in the number of vacancies and a rise in the number of people with jobs.

The latest figures for employment, also published yesterday, show an increase of 71,000 in the three months to September, on the assumption that 30,000 people went into self-employment over that period.

The number of people in work has been rising steadily in recent years and is now 1.19m higher than at its trough in March 1983, though still lower than when the present Government took office

Ulster MP in jail awaiting sentence

By Hugh Carnegy in Dublin

MR PETER ROBINSON, the Democratic Unionist MP for East Belfast, spent last night in jail in the Irish Republic after unexpectedly changing his plea in the case brought against him after a cross-border incursion by a group of loyalists.

He is due to be sentenced today in Dublin's Special Criminal Court.

Yesterday, Mr Robinson pleaded guilty to the charge of unlawful assembly while participating in the midnight takeover of Clontibret, a village close to the border, by a large group of loyalists last August.

He had pleaded not guilty to all 11 charges against him, but yesterday his counsel asked for the charge of unlawful assembly to be put to him again. This time he pleaded guilty.

The prosecution said it would not proceed with other charges of assaulting and causing actual bodily harm to two policemen and causing malicious damage to cars and property.

The court rejected an application to continue bail of I£10,000 (£9,500) because it is normal to hold in custody those pleading guilty to offences which might receive a jail sentence.

Mr Robinson was taken to Portlaoise prison, west of Dublin, where Irish Republican Army convicts are held. After less than an hour he was transferred for the night to Limerick prison, which also houses some Republican prisoners.

During the first two days, the prosecution said it was not seeking to prove Mr Robinson assaulted the policemen or damaged property but that he had been an active participant in a mob set on such offences.

For Mr Robinson, Mr Desmond Boal, a Northern Ireland QC sworn in to the Dublin court for the trial, concentrated on cross-examining state witnesses and seeking to discredit forensic evidence directly linking the MP to attacks on police cars.

Janet Bush on concern over sterling's vulnerability

Dollar fall masks pound's weakness

WHILE THE foreign exchange market's attention has focused on the US dollar's alarming collapse in recent weeks, a steady fall in sterling's value against the currencies of its European trading partners has gone largely unnoticed.

On three successive days at the beginning of this week the pound hit record lows against the D-Mark. But the decline in its trade weighted index against a basket of currencies has not been large because of its rise against the battered dollar.

Sterling has been caught up in the cross-fire of massive flows out of the dollar and into the D-Mark which forced the weekend realignment of parities within the European Monetary System.

Earlier this week, sterling appeared to be sitting quietly on the sidelines as the market concentrated on renewed strains in the EMS and an onslaught on the dollar. However, as the week progressed sterling's weakness against European currencies became more pronounced.

In the final days of last year, the pound appeared to have broken from its usual pattern of falling in line with the dollar. It was cushioned by stronger world oil prices in the wake of any agreement by the Organisation of Petroleum Exporting Countries and by national opinion polls which have been running consistently in favour of the Conservative Government.

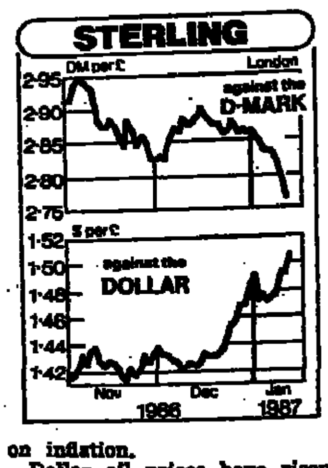
In view of these favourable factors, sterling's decline in the New Year has been disappointing and there is official concern about the potential inflationary impact.

Although sterling's decline against European currencies is favourable for exporters, Whitehall officials concede the fall against a background of higher oil prices has meant monetary policy has eased in recent weeks and that the prospect of cuts in base lending rates has receded.

Mr Nigel Lawson, the Chancellor, has said several times in the past three months that he would not like to see sterling fall further and that its adjustment to the collapse in world oil prices was complete.

He made his views clear in evidence to the Commons Treasury and Civil Service Committee on November 20, and reiterated them in an interview with the Financial Times on January 5.

Mr Lawson has said the main role of sterling within the framework of monetary policy was to exert downward pressure on inflation.



Dollar oil prices have risen about 25 per cent since their November levels, injecting renewed inflationary pressures into the system but sterling's response has been muted and its effective index is little changed.

The trade weighted index opened as low as 68.1 yesterday morning, while Brent crude oil for February delivery traded at nearly $19 per barrel.

It is thought sterling's weakness has provoked surprise as well as concern in the Bank of England, given the strength of oil prices and the lack of any obvious fresh negative news on the domestic economy.

The extremely volatile foreign exchange trading in recent days makes it difficult to determine sterling's underlying trend and to prescribe any corrective action.

The pound appeared to stabilise yesterday along with the rest of the market in somewhat calmer conditions. It seems likely the Bank of England will see how the situation develops when trading is less volatile.

Government officials acknowledge that confidence in sterling has been undermined by the deterioration in the balance of payments position and by political uncertainty ahead of an election.

Foreign exchange market traders believe the pound is vulnerable to any turnround in current favourable trends in oil prices and opinion polls and to signs of higher inflation.

Many hopes are now pinned on a generous budget, a Conservative Party victory in the general election, and a subsequent decision to take sterling into the EMS.

If Mrs Thatcher does not concede to the views of a majority of her officials and puts off the EMS decision, economists and traders believe sterling could be vulnerable later this year.

South-east 'will benefit most from employment growth'

BY PHILIP STEPHENS

MUCH of the prospective employment growth in Britain over the next decade is likely to be concentrated in south east England, a trend which will reinforce existing regional inequalities, according to a new study.

The report, published by the Department of Land Economy at Cambridge University, suggests that the trend will be reversed only if there is "some fairly drastic" strengthening of regional policy.

The report is likely to fuel the recent political debate over whether Britain faces a widening north-south divide, following the massive shake-out of employment in manufacturing industry at the start of the 1980s.

The study's central forecast is that some 900,000 new jobs will be created in Britain over the next 10 years. All of this increase is expected to occur in the private service sector, with employment in the public sector and in manufacturing expected to decline further. This in itself will tend to worsen the job base of the north – relative to that of the south.

Of the national total, the study says an extremely conservative assumption points to around 420,000 jobs going to the south east. Unless the Government decides to reinforce its regional policies significantly over the period, that figure could turn out higher.

The report's authors, Mr Peter Tyler and Mr John Rhodes, say a number of factors will tend to reinforce the present disparities in the economic performances of the north and south.

They say one of the most important influences will be the strength with which the present and future governments operate regional policies and seek to divert economic activity from the south to the north.

Developments of the infrastructure – including the regeneration of London's Docklands, the building of a third London Airport at Stanstead, and the proposed channel tunnel – will add to the attractions of the south.

South East Employment and Housing Study by P Tyler and J Rhodes, Department of Land Economy, University of Cambridge.

Inchcape reshapes Far East operations

BY KEVIN HAMLIN

INCHCAPE, a trading and service house, is reorganising its Asian and Pacific operations which are managed from Hong Kong in order to give it a higher profile in the region and streamline its management structure.

Inchcape's Far East operation, of which Hong Kong is the larger part, contributes a third to group pre-tax profit. This was down 41 per cent to £46m in 1985, although in that year the Far East contribution rose to 50 per cent, due to provisions made against operations in other regions. The group's interim pre-tax profit was up 10 per cent to £39.8m in 1986.

Inchcape's four holding companies in Hong Kong—Dodwell, which is involved in retailing and insurance; Inchcape Hong Kong, which owns Dodwell and controls Crown Motors, the holder of the Toyota distribution franchise; Gilman Business Machines; and Gibb Livingston, which is mainly in insurance—have been merged into a new headquarters company called Inchcape Pacific (IPL).

At the same time, Far East businesses will be regrouped into seven streams: motors, business machines, buying services, shipping services, marketing and distribution, wines and spirits, and insurance.

Five of those are grouped under IPL, but the insurance, and wines and spirits sectors will report to London and are not affected by the reorganisation. Under the previous corporate structure, some companies reported to Hong Kong holding companies while others reported to London.

Individual companies will still operate under their own names, but employees will be placed on IPL to improve group image and recognition. The headquarters of the four holding companies are transferred to IPL, where specialist directors are replacing holding company directors. Inchcape China, a trading company, will also report to IPL.

The Inchcape group has identified ten core businesses on which to concentrate resources internationally during the next two to three years. Five of these—motors, business machines, buying services, shipping services, and marketing and distributing—have been earmarked for big investments.

Mr Charles Mackay, Inchcape chairman, said the group's performance was strong in Hong Kong, China, Japan and Guam, and efforts would centre on developing a stronger presence in other Far East markets.

Mr Mackay said Inchcape China's year-on-year export trade was up 60 per cent in 1986, while in 1985 it handled trade worth US$140m (£92m). However, Road Holdings, a publicly-listed motor trading concern in Hong Kong, saw interim profits down 4.5 per cent to HK$10.6m (£914,000) in 1986.

Nuclear project staff lose EEC pay parity claim

BY RAYMOND HUGHES, LAW COURTS CORRESPONDENT

BRITONS employed at the joint European nuclear fusion research station at Culham Oxfordshire have lost their claim to be paid the same rate as colleagues from other EEC countries some of whom earn three times as much.

The European Court of Justice in Luxembourg yesterday accepted there was pay discrimination against the Britons, but said it was justified.

The UK Atomic Energy Authority, which employed the British staff, was not comparable to any other organisation involved in the project.

It was the host organisation and had provided the site, administered the project, supplied more than half the workforce and had borne a disproportionately large share of the cost. It was also responsible for the disposal of radioactive waste.

The authority's research centre is also on the same site where UKAEA scientists, doing similar work to the project scientists, were on domestic salary levels, the court said.

The court's decision was unexpected as it ran counter to opinions the court received from two of its Advocates General, both of whom advised that EEC non-discrimination laws were being breached.

Culham is the home of the Joint European Torus (JET). It operates under the auspices of the European Atomic Energy Commission and is a partnership between the EEC, Sweden and Switzerland.

The regulations setting up JET in 1978 said staff from the host organisation should be treated as UKAEA employees and paid accordingly.

Staff from participating organisations were to have the status of temporary EEC civil servants, with the benefit of higher Community salaries.

About three-quarters of the British staff supported a claim, made in March 1983, against the European Commission and Council of Ministers, that they too should be treated as temporary Community civil servants.

Then the maximum gross salary for a British principal scientist at JET was £15,290, compared with £33,540 for a non-UK colleague.

Sharp increase in court actions for debt recovery

BY RAYMOND HUGHES, LAW COURTS CORRESPONDENT

COURT actions for debt recovery nearly doubled from about 1.3m in 1980 to about 2m in 1985, as both the provision of credit and default by debtors rose sharply. Most of the cases arose out of the supply of goods, services and credit.

Lord Hailsham, the Lord Chancellor, has put forward proposals aimed at improving the system for debt recovery, making it more sensitive to the needs of both creditors and debtors.

As part of his civil justice review, Lord Hailsham commissioned Touche Ross Management Consultants to analyse the whole system for debt recovery. The company's conclusion was that the system was working well in the main, and that more than 60 per cent of creditors were able to recover at least part of a debt without undue cost or delay.

It found that the average claim in High Court cases was for £5,000, and that most claims were against business debtors. The average county court claim was £230 and in such cases most debtors were individuals.

On the negative side, Touche Ross found that most creditors had no information about the debtor's financial status.

A substantial minority of individual debtors were in low-paid employment or unemployed and found it hard to pay off their debts.

Although in most cases at least some payment was received, half the claims were still wholly or partly unpaid a year after judgment had been obtained.

Lord Hailsham's proposals included:

● Providing easier access to the courts for both parties.
● Restricting the amount of future credit that multiple debtors may obtain.
● Placing restrictions on enforcement against debtors who have no means to pay.
● Starting all debt cases in the county courts to help unify the system and relieve pressure on the High Court.
● Creating closer links between the courts and voluntary advice agencies such as citizens advice bureaux.
● Encouraging out-of-court settlements.

Entertainments group directors resign

BY CLAY HARRIS

SIR FRED PONTIN and Mr Ronnie Aitken have resigned as directors of Kunick Leisure, an entertainments group.

Each had served as chairman of the group, which owns the London Dungeon horror waxworks, Scarborough Zoo, leisure parks and discotheques and hires out jukeboxes and fruit machines.

Mr David Hudd, present chairman, said Sir Fred and Mr Aitken had resigned to pursue their own interests. He also said Sir Fred wanted to reduce some of his activities now that he was 80.

Mr Aitken, an accountant and active "company doctor," joined Kunick late in 1980 when it was a troubled fashion manufacturer. Sir Fred, founder of the holiday camps which bear his name, brought some of his personal interests into Kunick in 1983 when the company re-emerged to trade on the Over the Counter market.

The large minority stake in Kunick held by Kersaf Investments, South African operator of the Sun City complex, has become increasingly controversial in the past year.

It was one factor in an aborted agreement to take over Nomis, the music management group.

Dane appointed to key Harland and Wolff post

BY OUR BELFAST CORRESPONDENT

HARLAND AND WOLFF, the state-owned Belfast shipyard, has appointed Mr Per Nielsen, former production director and deputy of Aalborg, a Danish shipbuilder, to a key post as part of efforts to strengthen its management team.

Mr John Parker, chairman and managing director, said Mr Nielsen, 46, a Dane, would join the company as assistant managing director (operations), and would be in overall charge of ship production, engineering, ship repair, production technology and production planning.

The changes follow the retirement of Harland and Wolff's deputy managing director and another senior director. Mr Bert Harkness moves from engineering director to sales director and Mr Lionel Wilds, chief accountant, becomes finance and administration director.

Mr Nielsen is joining at a difficult time. In November the company announced 800 redundancies, cutting the labour force to 4,200, and the Government has had to increase the shipyard's external funding limit to £68m to cover losses and redundancy costs.

However, Mr Nielsen said he was attracted to Harland and Wolff as it had some of the finest facilities in the industry and "some of the best and most interesting orders in world shipbuilding today."

Mr Nielsen was responsible at Aalborg for a versatile construction programme of naval and sophisticated merchant ships including cruise liners.

FINANCIAL TIMES SURVEY PROGRAMME

The following Financial Times Surveys are to be published next week:

Monday January 19
REGIONAL DEVELOPMENT

Tuesday January 20
UNLISTED SECURITIES MARKET

Thursday January 22
BRIGHTON

Friday January 23
HEALTH CARE

Saturday January 24
TAKING YOUR CAR ON HOLIDAY

Dates of Financial Times Surveys may be changed at short notice

FT LAW REPORTS

Bank waives discrepancies

CO-OPERATIVE CENTRALE RAIFFEISEN-BOERENLEEN-BANK BA v THE SUMITOMO BANK LTD

Queen's Bench Division: Mr Justice Gatehouse: December 11 1986

A BANK'S late acceptance of discrepant documents under a letter of credit constitutes waiver of the discrepancies, so that the position is as if they do not exist. Accordingly, where the issuing bank fails to choose, within a reasonable time, whether to reject or accept the documents so that the confirming bank fails in its matching obligations, the confirming bank's financing charges arising out of late acceptance are not covered by the beneficiary's undertaking to assume full responsibility for discrepancies, but are paid by the confirming bank which is reimbursed by the issuing bank.

Mr Justice Gatehouse so held when giving judgment for the plaintiff beneficiary bank, Co-operative Centrale Raiffeisen-Boerenleenbank BA, on its claim against the defendant confirming bank, The Sumitomo Bank Ltd, for $73,000 due under letters of credit.

HIS LORDSHIP said that the buyer, an Egyptian state corporation, contracted to buy a quantity of natural butter oil from Dutch exporters.

On August 31 1982 the buyer's bank in Cairo ("the issuing bank") telexed the confirming bank in London that it had opened an irrevocable credit account in favour of the sellers. Ninety per cent of the consignment value was to be paid against presentation of shipping documents, and the remainder within 60 days of discharge.

On October 15 1982 the documents in respect of the first shipment were presented by the sellers to their bank, the beneficiary bank. They were checked and found not to conform to the terms of the letter of credit. The discrepancies were notified to the sellers.

The beneficiary bank forwarded the documents to the confirming bank in London, which also found discrepancies. The beneficiary bank said: "We assume full responsibility for discrepancies . . . so please effect payment."

The confirming bank accordingly paid the sellers the 90 per cent first instalment and forwarded the documents to the issuing bank, noting the discrepancies. It raised a loan in favour of the issuing bank for the amount it had paid to the beneficiary, thus reimbursing itself for the 90 per cent which it described in the documents as a "payment under reserve."

The Uniform Customs and Practice Brochure No 290 was incorporated into the letter of credit. Article 8 governed the rights and obligations *inter se* of the issuing bank and the confirming bank. Article 8 (c) provided that if the documents appeared to the issuing bank not to accord with the terms of the letter of credit, "that bank must determine on the basis of the documents alone whether to claim that payment . . . was not effected in accordance with the terms . . . of the credit."

Mr Hapgood, for the beneficiary bank, said one must read into the article that the issuing bank was entitled to refer to its principal [the buyer] before making its determination.

That was right. The Code was not a statute and did not purport to deal comprehensively with documentary credits. There could be no rule of construction against reading words in where necessary.

Under paragraph (c) the issuing bank was given two alternatives — to make the claim, or not to do so. In practise it was the principal which decided which course to take. The words "on the basis of the documents alone" meant not that the issuing bank could not consult its principal, but that the issuing bank and principal were not to take account of extraneous matters.

If it was to reject the documents, the issuing bank must comply with its obligations under paragraph (e) to give notice "without delay" to the bank from which they were received, "and such notice must state that the documents are being held at the disposal of such bank or are being returned thereto."

Under paragraph (g) of article 8 the payment "under reserve" by the confirming bank to the beneficiary bank was a matter entirely between those two banks. It did not relieve the issuing bank of any of its obligations to the confirming bank, in particular the obligation to notify it promptly of election and to tell it the documents were at disposal or being returned to it.

On November 6 the issuing bank telexed the confirming bank to consider the documents as being at its disposal "until we receive our principal's instructions concerning the discrepancies."

That was not a notice complying with article 8(e). It was not intimating rejection of the documents, because of "until we receive . . . instructions."

The final date for presentation of shipping documents under the letter of credit was November 21. On November 25 the sellers obtained further documents. The issuing bank accepted them and notified the confirming bank.

Although the confirming bank had paid 90 per cent to the beneficiary bank on October 22, the issuing bank declined to reimburse the confirming bank earlier than the date of acceptance, namely November 30. Without consulting the beneficiary bank, the confirming bank and the issuing bank agreed that the issuing bank should only pay interest from that date.

It was not until May 5 1983 that the issuing bank authorised the confirming bank to pay the final 10 per cent. The confirming bank paid the remaining 10 per cent for all shipments, after deducting $73,000 which was the total interest payment. It claimed that was a lawful set-off arising under the beneficiary bank's guarantee to assume "full responsibility to the discrepancies."

Where conforming documents were presented by a beneficiary and payment was made by a confirming bank, the issuing bank was obliged under article 8(b) to reimburse the confirming bank as of the date when the confirming bank paid the beneficiary.

Mr Page for the confirming bank argued that where non-conforming documents were presented the position was entirely different. He said the confirming bank was not responsible for the delay that occurred before the documents were eventually accepted. The fault lay with the seller who presented discrepant documents and thereby placed himself at the mercy of the buyer. It resulted in a financing charge which fell within the guarantee.

That argument was not accepted because it assumed there was no fault on the part of the confirming bank. There was, and it stemmed from breach by the issuing bank of its obligations under article 8.

Once a reasonable time had passed for consideration of the discrepant documents, the issuing bank, after consulting its customer, was obliged to choose whether to accept or to reject. It did neither.

The confirming bank owed similar obligations to the beneficiary bank. *UCM v Royal Bank of Canada [1983] AC 168, 184, 185* supported the commercial necessity for matching obligations on the part of the confirming bank to the beneficiary.

The breach by the issuing bank of its obligations to the confirming bank necessarily caused the confirming bank to be in breach of its matching, though implied, obligations to the beneficiary to pay (which meant here to lift the reserve) or to return the documents.

The confirming bank was unable to hold the documents at the beneficiary's disposal, and it thereby deprived the beneficiary of the right under article 8 (f) to force the issuing bank to make its election. It purported, by its agreement with the issuing bank, to amend the credit terms unilaterally and, by the same agreement, it purported to impose on the beneficiary terms which the beneficiary had not agreed to.

Where discrepant documents were in the end accepted, the discrepancies were waived and the position was just as if there had been no discrepancies in the first place. Payment must, therefore, be made by the issuing bank to the confirming bank so as to reimburse it for the payment it had made.

Although the original presentation of non-conforming documents started the chain of events, the loss suffered by the confirming bank was not within the beneficiary bank's undertaking to be fully responsible for discrepancies. It arose from the issuing bank's breach of its obligations to the confirming bank, and the confirming bank's breach of its obligations to the beneficiary bank.

The confirming bank was, therefore, not entitled to set off the loss of $73,000.

For the plaintiff beneficiary bank: Mark Hapgood (Slaughter and May).

For the defendant confirming bank: Howard Page (Coward Chance).

By Rachel Davies
Barrister

APPOINTMENTS

New chief executive for National & Provincial

The new chief executive of NATIONAL AND PROVINCIAL BUILDING SOCIETY is Mr Benedict Thompson-McCausland. He joins the society on February 23 after six years as chief executive of London Life Assurance Association.

★

ACORN COMPUTER GROUP has appointed as chairman Mr Bruno Soggiu, vice president for new ventures at the Olivetti Group and already a board member of Acorn. Mr Alex Ubeldi and Mr Jim Edwards have resigned from the board because of new responsibilities within the Olivetti and AT & T groups and Mr Paolo Tosi, managing director of British Olivetti and Mr Franco Agostinucci, vice president for product and market strategy at the Olivetti Group, join the Acorn board.

★

Mr Michael Warburg has been appointed deputy chairman and chief executive of ROLFE & NOLAN COMPUTER SERVICES. He was managing director of Extel Financial.

★

Further to its offer for Lynton Holdings having become unconditional, PROPERTY & REVERSIONARY INVESTMENTS has appointed Mr Maurice Lambert and Mr Kenneth Rubens as respectively executive chairman and deputy chairman of the merged group with Mr Peter Olsberg and Mr Gordon Edington becoming joint managing directors. Mr Jessel Harris will be finance director and Mr Michael Brilling becomes senior executive director. Mr Hamish Preston, a senior partner of Jones Lang Wootton, and Mr Gordon Simpson, chairman of General Accident, will continue as non-executive directors. Mr Michael Comninos, Sir Jack Hughes and Mr Arthur Arnold have retired from the board.

★

Mr David C. Pinckney has joined the THORNTON MANAGEMENT GROUP as chief administrative and financial officer. He was formerly senior audit partner of Peat Marwick in France, and for the last three years managing director of Wrightson Wood Financial Services.

★

Mr Richard Gloyn has been appointed a director of PARKER KNOLL. This follows the acquisition of Semple & Co, of which Mr Gloyn is managing director.

★

Mr Peter Bennett has been appointed a director of HALLITE. He is managing director of Hallite Hilyn and will continue to hold that post. Additionally he will now join the boards of Hallite Plastics, and Hallite Engineering, as chairman.

★

LAING HOMES SCOTLAND has promoted Mr Peter Williams to area commercial director, Mr Ian Augustus to area sales and marketing director and Mr Jim Boyle to area construction director.

★

Mr Jean Gaulin, has been appointed a director of ULTRAMAR, London. He is president of Ultramar Canada Inc, a position he has held since rejoining the Ultramar Group in March 1985. He was formerly president of Gaz Metropolitan Inc and of Nouveler Inc of Montreal, prior to which he had held a number of key positions within Ultramar Canada over a period of 11 years. Mr Gaulin is also on the board of Quebec Telephone and is a governor of the Montreal Exchange.

★

SENIOR ENGINEERING GROUP has appointed Mr R. Evans, chief executive of British Gas, as a non-executive director.

★

Mr Michael Langdon has been appointed deputy chairman and chief executive of KELLOCK TRUST and Mr Christopher Dowling has joined the board as an executive director.

★

Mr Robin A. Biggam has been appointed chief executive of BICC. He has been managing director since February, 1986.

★

Mr David Segal and Mr David Parmee have been admitted to the partnership of TG ARTHUR HARGRAVE, independent consulting actuaries.

★

Mr John Noyelle has become chairman of WHITBYS, building refurbishment specialist of the OCS Group. Previously managing director, he is succeeded in this post by Mr Roger Banks, who was joint managing director of Linford Building.

★

PROCTER & GAMBLE has appointed Mr M. Clasper to the board. He remains advertising manager and a member of the management committee.

★

ICL (UK) has appointed Mr Robert Downey as director of marketing and Mr Michael Dolan as director of defence region, a new post.

★

WICKES has appointed Mr Paul Alexander as managing director, Wickes Property and Financial Services. He joins from Heritable Finance Corporation.

★

Mr Christopher Morgan, chairman and managing director of Christopher Morgan Marketing and Public Relations, formed a partnership with Mr Simon *Rostron* and *Ms Anna Campbell*. The company is now known as CHRISTOPHER MORGAN AND PARTNERS. Mr Rostron is responsible for the international markets division. Ms Campbell is responsible for the banking and equity division.

★

SWISS RE (UK) life division has promoted Mr Mike Smith to senior underwriter and Mr John Dyason to underwriter.

★

Mr Stephen Horowitz has been appointed joint managing director of KESPERRY.

★

Mr Ian Grice and Mr Jim Barrack have been appointed directors of MOWLEM MANAGEMENT, managing contracting subsidiary of the Mowlem group.

MANAGEMENT

Unocal

Independence comes at a punitive cost

Heated debate still surrounds the US oil company, William Hall reports

FRED HARTLEY, the 69-year-old chief executive of Unocal, the West Coast oil company, has never hidden his disgust at the activities of corporate predators like T. Boone Pickens, the *Texas oilman*. Wall Street may regard such men as heroes, but to Fred Hartley they are "financial barbarians . . . primarily motivated by personal greed."

"Corporate raiders and bust-up takeovers have not inspired one new technological innovation: they have just drained off investment capital. They have not strengthened companies: they have weakened them, loading surviving firms with onerous debt. They have not strengthened the nation's economy: they have weakened it," Hartley told a congressional sub-committee in June 1985, less than a month after he defeated an unwelcome takeover bid from Pickens.

"While we may be able to compete with each other at home if all companies are similarly debt-ridden and weakened, certainly we can no longer succeed in the international markets where we were once world leaders. The whole world is laughing at us—especially the Japanese," he added.

While Hartley walked away the apparent victor in his brush with Pickens, the three-month-old battle for control of America's 12th biggest oil company has become a *cause celebre* in the debate about the rights and wrongs of the wave of US corporate takeovers.

William Proxmire, head of the Senate banking committee, frequently cites the case of Unocal as a casualty of the takeover mania and one of the reasons why he is pressing for legislation curbing hostile acquisitions. Unocal had to buy back over one-third of its shares for more than $4bn to fight off Pickens and in the process lost its reputation as one of the most conservatively financed oil companies in the US. Less than six months after the takeover battle, the price of oil collapsed throwing Unocal's long-term future into jeopardy.

Senator Proxmire, worried by the rapid build-up of debt in company balance sheets, argues that T. Boone Pickens and his fellow corporate raiders have a lot to answer for. "Fred Hartley is spending an extra $3m a day paying interest. It is money that cannot be put into research and development and manpower training," says the senator.

T. Boone Pickens, by contrast, bristles at such remarks. "Fred Hartley took on $4bn of debt just to keep his job," says Pickens, who has been criss-crossing the country championing the rights of America's 47m small shareholders in his role as chairman of the United Shareholders Association (USA). Where did Unocal's $4bn go? asks Pickens rhetorically. "It went directly into the pockets of the shareholders and straight back into the US economy." It was not the sort of "sterile" manoeuvre which Senator Proxmire had alleged it to be.

Some 18 months after the Unocal takeover battle, the debate between the "self-serving corporate raider" and "entrenched management" continues.

The battle raised important questions about the role and responsibilities of Drexel Burnham Lambert, the New York investment bank which has bankrolled most of the corporate raiders, most notably Pickens.

But most important, it focused attention on the apparent conflict between Wall Street's short-term share performance requirements and Unocal's longer-term objectives, which the company argues would be reflected in its share price, given time. Did Pickens's takeover bid force Unocal to cut its "corporate fat" and improve its management? Or did it force the company to take a number of short-term decisions which impaired its long-term future?

The answers remain elusive, but on balance tend to support Hartley's view that the activities of the corporate raiders are forcing US companies to become dangerously short-sighted.

By all accounts, Unocal was a well run oil company—albeit conservatively financed—on the eve of Pickens's arrival on the scene in February 1985. It had made a profit every year since 1901 and had paid a regular cash dividend for 70 years. Unlike most takeover candidates in the depressed oil industry, Unocal had a fairly successful oil exploration record and did not have much obvious fat to shed.

"Its oil replacement rate had consistently been among the highest in the industry and its finding and development costs among the lowest," says Dillard Spriggs, president of Petroleum Analysis, a New York consultancy firm.

The company was also one of the most successful pioneers of alternative energy sources. Its Parachute Creek shale oil project in Colorado was the first commercial-scale shale oil mining venture in the world. Despite serious technical and financial problems, Unocal continues to persevere with it, even though almost all of its competitors have axed similar projects.

Unocal has pioneered the development of geothermal energy for 25 years and accounts for over half of the world's production. It produced the equivalent of 35,600 barrels a day of oil last year and its geysers operations in North California produce enough power to meet the electricity needs of San Francisco and Oakland.

In addition, long-term investors in Unocal stock had done considerably better than investors in some of the company's bigger rivals. Unocal says that $10,000 invested in its stock in 1960 would have been worth $127,000 by the beginning of 1985, while a similar investment in Exxon, Chevron, Mobil and Texaco would have been worth about $37,000.

T Boone Pickens (left) says of Fred Hartley: "He took on $4bn of debt just to keep his job"

In 1984, the year before Pickens's abortive bid, Unocal had shareholders' funds of $5.7bn, long-term debt of $1.1bn and earned $700m—or 12.9 per cent—on its equity. This year, Unocal will be lucky to earn $150m and is not earning enough to cover its reduced dividend. Long-term debt of $5.2bn has been cut from a peak of $5.7bn, but is still overshadowing the company's $1.6bn of shareholders' funds.

"Interest charges are crippling their earnings," says Petroleum Analysis, which argues that Unocal's challenge is to keep its operations on as even a keel as possible until oil and gas prices improve. At $15 a barrel "that can probably be accomplished without dramatically damaging the company's long-term future." However, if prices were due to fall below $12 a barrel, the company would probably have to begin selling its core assets to survive. Several of its stronger competitors, such as Standard Oil and Amoco, are known to be interested in acquiring some of Unocal's plum assets if it is forced to sell. Unocal's geothermal properties, its large truck stop fuel operations, its downstream refining and marketing business in the US and its overseas concerns could all easily be sold.

But Hartley has said repeatedly that he is not going to dispose of the company's core assets in a "fire sale." To date it has sold about $100m of marginal assets. It has halved its capital spending to less than $1bn a year and just over 1,000 of its 20,000 staff have taken early retirement. The company has stubbornly refused to take the sort of actions which Pickens would almost certainly have taken had he been in control.

Hartley says the argument that corporate raiders promote efficiency is "nonsense" and scorns the claims that they are championing the cause of the small shareholder. "They produce nothing positive—only profits for a very few, misery for many and a great deal more unstable debt in the economy.

"Together with their Wall Street cohorts, these raiders try to intimidate management and stampede shareholders. They do not care about jobs or products, companies or industries: they are primarily motivated by personal greed," he says.

No one is left in any doubt that Hartley believes that Unocal's chances of remaining a force in the US oil industry would have been slim if Pickens had succeeded. He says the company would have had to support almost $11bn of debt with $10m of common stock. "That's quite a high-wire act—outperforming anything conceived before the 1929 crash."

He does not deny that Unocal has paid a high price for its independence. Because of the huge debt burden, it will no longer be able to exploit its previous financial strength to move quickly into exploration, or buy assets when attractive profit opportunities appear.

However, Hartley's most damning criticism of corporate raiders is reserved for their short-term time horizons—when the US is running out of oil.

Over the past 14 years, US oil and gas reserves have fallen by almost a third and, at present rates of consumption, there is probably little more then ten years' support left. In order to maintain oil production at current levels, the US will have to find more than 30bn barrels of oil, more than the country's entire proven reserves, before the year 2000.

Hartley estimates there is at least another 600bn barrels of recoverable oil locked up in US shale deposits, enough to last the country for almost 150 years at present rates of consumption. With plentiful supplies of oil and weak prices, and the consequent cuts in R and D, he may sound alarmist when he warns that the US is being lulled into a false sense of security.

"If any business demands a long-term point of view and willingness to take calculated risks, it is the energy industry. But today's corporate raiders and paper entrepreneurs do not get very excited about long-term prospects. They're out for the quick kill, converting a company's equity into debt, milking assets and ultimately destroying the company itself."

Hartley draws support for his views from an article by Robert Hayes and William Abernathy of the Harvard Business School. It notes that America's overseas competitors give US managers high marks for their skill in improving short-term efficiency, but question American entrepreneurial imagination and willingness to make risky, long-term competitive investments.

"The key to long-term success — even survival — in business is what it has always been: to invest, innovate, to lead, to create value where none existed before." Fred Hartley rests his case.

Previous articles in this series were published on January 13 ad 14. The next will appear on Monday.

Management abstracts

Contractor-operated in-plant stores. R. A. Reid and C. F. Huth in Industrial Engineering (US), August 1986 (3½ pages).

Argues that contractor-operated in-plant stores (large distributors running stores and owning/controlling the stock) can reduce purchase and inventory costs as well as increase operational efficiency; examines the main implementation factors, eg extensive evaluation to select appropriate contractors, the effects on employees who relinquish part of their responsibilities.

Voluntary reduced work time. A Mills and J. M. Wood in Human Resource Management Australia (Australia), May 1986 (8 pages).

Refers to surveys in the US and Australia that show variances between existing work time conditions (eg 38 hours a week) and workers' preferences; examines options, such as part-time work, and reports the results of an Australian survey into employees' work time preferences, mostly involving trade-offs between income and time; lists the benefits and drawbacks of reduced work time schemes and types of employee for which they are suitable, as seen through the employers' eyes.

Self development. P. Honey and N. Povah in Industrial and Commercial Training (UK), July/August 1986 (3½ pages).

Reveals how a consultant and a trainer from ICL (the authors) devised a self-development training course for the company's sales force based on a two-day workshop comprising a day of diagnosis and a day of learning; explains how, with minimum guidance and intervention, participants diagnosed their own needs and then planned how to transfer what they had learned to their normal jobs; notes that 10 workshops have been held and that reactions have been favourable.

How sales people lose orders. N. Bloom in Industrial Marketing Digest (UK), Vol 11 No 3 (5½ pages).

A market research professional identifies seven reasons why orders are lost: contact at the wrong level; not keeping up the contact; making claims; trying to go it alone; underestimating the prospect; hiding when things go wrong; and not keeping promises.

These abstracts are condensed from the abstracting journals published by Anbar Management Publications. Licensed copies of original articles may be obtained at a cost of £4 each (including VAT and p+p; cash with order) from Anbar, PO Box 23, Wembley HA9 8DJ.

TECHNOLOGY

Direct line to hidden places

Hilary Barnes in Copenhagen reports on a Danish innovation in graphic techniques

BEFORE the *Titanic* was discovered and photographed on the sea bed, extensive surveys were made of the configuration of the ocean floor and the currents in the area in order to pinpoint the ship's likely final resting place.

This information was reproduced in the form of three-dimensional colour maps, with currents superimposed as a fourth dimension by means of computer graphics software made by a Danish company, Uniras.

The name Uniras stands for universal raster system, which is one of the two techniques for producing drawings by computer. The other is the vector technique, which is used for drawing a line from one point to another and is ideal for engineering drafting.

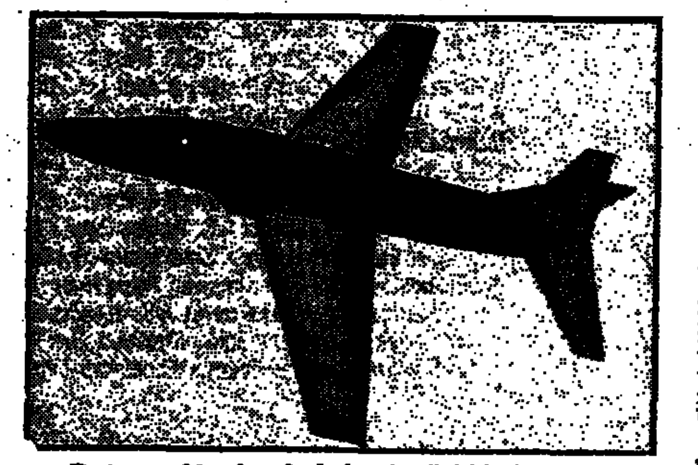
Raster graphics produce continuous tone drawings, as on a TV screen, and are therefore ideal for tasks requiring large areas of colour, such as map making.

One of the first appliances for the Uniras product was by the oil companies, which were able to use raster graphics to produce colour maps of underground configurations on the base of information from seismic surveys.

These maps use colour images to show the likes of limestone, shale, sand structures and faults. This gives a much more informative picture than earlier maps, which consisted of black-on-white wiggley lines and left everything else to guesswork by geologists.

The applications for raster graphics extend far beyond mapping, however. They are used in hospitals to convert the image generated by a body scanner into a high resolution colour picture, which can be printed out. This means that a patient does not have to return for another scan if a second opinion is needed.

A Uniras system is used by the research staff at Volkswagen, the West German car manufacturer, to produce pictures of what happens inside an engine cylinder when combustion takes place. And Spot Image, a French company which is a leader in the commercial provision of satellite views of the earth's crust, uses the software to obtain high-resolution pictures. Dr Klaus Schmidt, a mathematician at the University of Berlin, even uses the system to display his mathematical hypotheses in graphic form, enabling him to assess strengths and weaknesses in his arguments.



Raster-graphic aircraft design for British Aerospace.

The technique is also being used to produce high-quality business graphics.

Since its establishment in 1980, Uniras has built up a turnover of about $10m a year, selling its specialised graphics programmes to the oil, automobile and aerospace industries, and to governmental agencies throughout the world (for geological, environmental, defence and demographic studies).

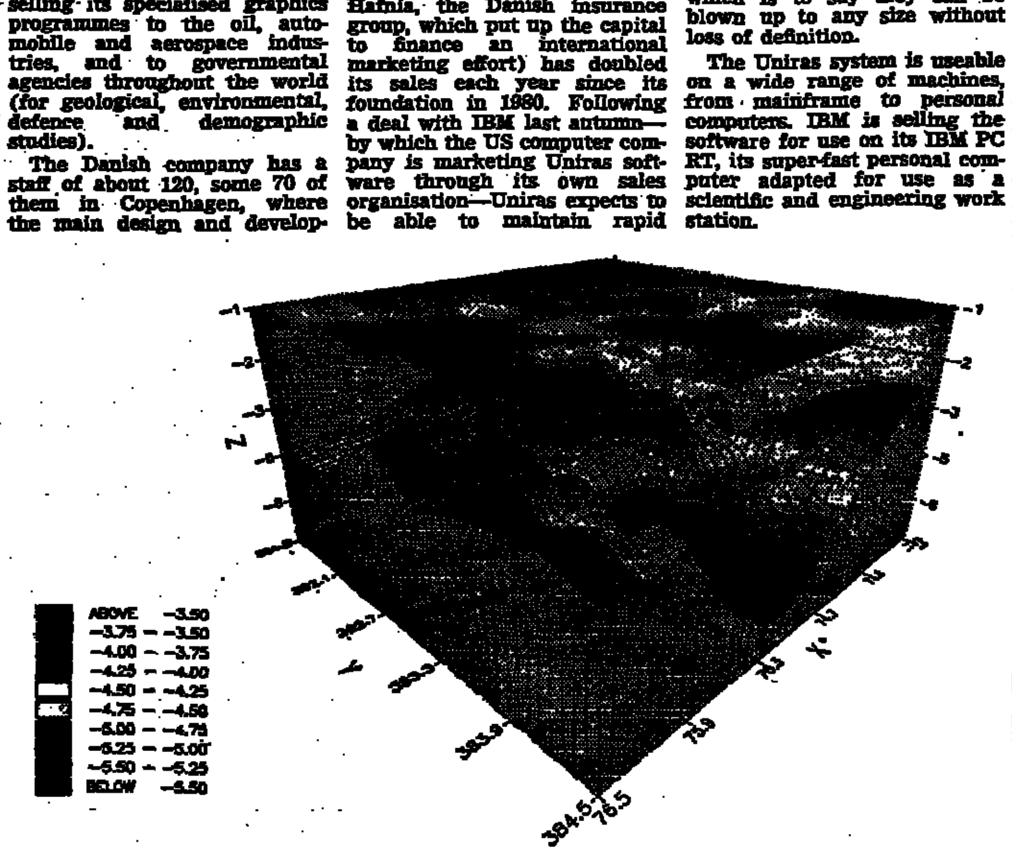
The Danish company has a staff of about 120, some 70 of them in Copenhagen, where the main design and development work, as well as marketing and financial operations, are based. The rest of the employees are in offices in the UK, France, Germany, Sweden and the US, where there are offices in Dallas, Boston, Washington DC, Chicago and Los Angeles.

Uniras (a subsidiary of Hafnia, the Danish insurance group, which put up the capital to finance an international marketing effort) has doubled its sales each year since its foundation in 1980. Following a deal with IBM last autumn—by which the US computer company is marketing Uniras software through its own sales organisation—Uniras expects to be able to maintain rapid growth, says Mr Allan A. Davies, who after 18 months in Copenhagen setting up the Uniras marketing section has now moved to Britain as managing director of the company's UK subsidiary.

The Uniras technology was developed by Mr Mikael Jern, a Swede, who founded Uniras and is now the company's technical director. While working at the University of Lund, where ink-jet print technology was pioneered in the 1970s, Mr Jern invented the technique for telling a computer how to control the ink jet, and this technology is the basis of the Uniras product.

Raster images are based on a rectangular array of digital information, in which each pixel (picture element) acts rather like the dot technique used to produce newspaper pictures. By varying the intensities, each pixel can be ordered to generate a colour tone. One of the advantages of the technique is that when reproduced the pictures have infinite resolution, which is to say they can be blown up to any size without loss of definition.

The Uniras system is useable on a wide range of machines, from mainframe to personal computers. IBM is selling the software for use on its IBM PC RT, its super-fast personal computer adapted for use as a scientific and engineering work station.



Uniras system in use for three dimensional map with projected contour overlay

WORTH WATCHING

Edited by Geoffrey Charlish

Irish robot pays its way

TILLOTSON OF Tralee in Ireland believes it can pay to add a robot to existing machine tools rather than bring in expensive new automation equipment.

Tillotson makes small carburettors for products like chain saws. It sought to automate internal bore honing of the carburettor bodies and to number them automatically. Production of these units can reach 7,500 a day.

The company went to Evershed Robotics of Telford, Shropshire, UK, where a system was designed and pretested using a relatively inexpensive Toshiba TSR 654 Scara robot. Scara is a Japanese invention in which two joint-connected arm components move in a horizontal plane like the hand of a clock about a fixed, vertical column at the centre. The outer arm is driven from the inner to alter the angle between the two. At the end of the outer arm is a vertical member that can be driven up and down, to pick and place items within a defined circular area.

In Tillotson's new cell robot, transfer of the body castings takes place between input conveyor, numbering station, boring machine and output conveyor. Cycle time from input to output is 10 seconds and the placing accuracy is 0.05mm.

Clear benefits to Los Angeles

SANDIA NATIONAL Laboratories at Livermore, California, has found a way of removing the oxides of nitrogen (NOx) from exhaust gases. When commercialised, the idea could lead to the end of smog in places like Los Angeles.

The work has yet to leave the laboratory, but early experiments show that a chemical called cyanuric acid (used to stabilise chlorine in swimming pool purification) can turn 99 per cent of the NOx into nitrogen, oxides of carbon, and water.

NOx is the key to the production of photochemical smog. Sunlight splits it to produce an oxygen atom which reacts in air to produce ozone, a major and unpleasant ingredient of smog.

Battelle forms a splinter group

BATTELLE, the Columbus, Ohio research organisation, is proposing a programme that addresses the treatment and disposal of metal finishing wastes.

The multi-client research will examine the advantages of combining two techniques, selective precipitation and selective flocculation (the chemical production of particles and their joining together into larger "lumps"). The idea is to reduce waste volume for disposal and recover water for recycling.

Word spreads on low-cost system

NATURAL language translation software recently developed by Automatic Language Processing Systems (ALPS) in the US and Switzerland can now be used on an IBM personal computer model AT.

Until recently, language translation systems had to be implemented on mainframe computers, making them expensive. But the new ALPS product, called TSS (translation support system) can be purchased, with five workstations, for $50,000. Translation to and from most European languages is offered.

As international trade and dealings of all kinds continue to increase, so does the need for more cost effective translation. An EEC study some years ago estimated that there were 175,000 translators world wide dealing with 150m pages of text a year. Half of the translation market ($3bn in 1986) is in Europe according to ALPS. The company claims that the use of TSS could produce a threefold increase productivity.

Its software is unusual in being interactive (leading a user through a series of functions), whereas most automatic translation is performed in "batch mode" (in which a length of text is entered and the user waits while the machine translates and produces a "raw" result on the screen, for "clean up" editing by the human translator).

In the TSS interactive system, the translator works with the computer "on line," resolving ambiguities and problems as the work progresses. This shows through in better translations, says the company.

How GM will play its part

CHICAGO-based Bell and Howell (B and H), the micrographics and electronics company, has signed an agreement with General Motors of Detroit in which B and H is to publish the details of more than 2m GM motor parts on optical disc.

Each of the discs holds the equivalent of 200,000 typewritten pages held as microscopic laser-made "pits" on an otherwise reflective surface.

The Bell and Howell optical disc terminals, costing between $150,000 and $50,000, use touch screen techniques ("buttons" appear on a screen and can be "pressed").

CONTACTS: ALPS: Cortaillod-Neuchatel, Switzerland. 3844 2111. Sandia: Livermore, US. (415) 422 2447. Evershed Robotics: Telford, UK. 0952 608288. Bell and Howell: UK office, Ashford, Middlesex. 07842 51234. Battelle: Columbus, Ohio, US. (614) 424 7984.

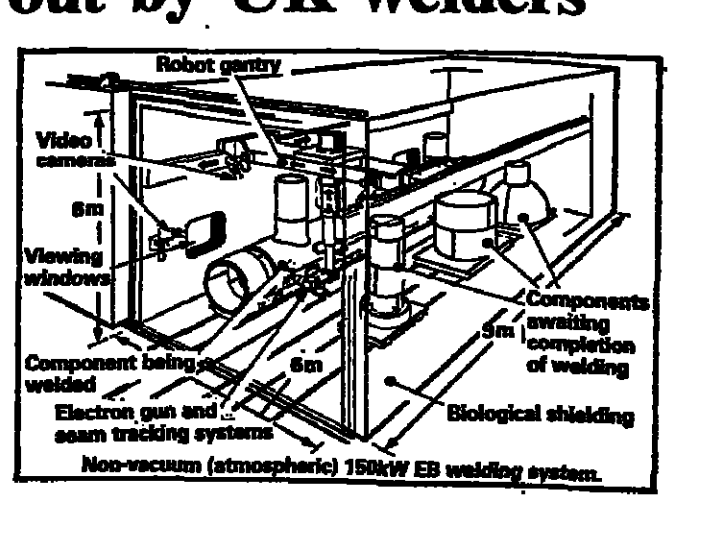
Big gun is wheeled out by UK welders

THE UK Welding Institute is leading a European consortium to build what is believed to be the world's most powerful electron-beam welding facility. Costing over £3.5m, the project is funded under the EEC's Eureka technology programme.

Electron-beam welding normally takes place in a vacuum chamber, but this machine will be so powerful it can operate in air.

The diagram shows the equipment to be installed in a concrete blockhouse, 9 metres long, 6 metres wide and 6 metres high, with wall 1 metre thick to contain the intense secondary X-rays produced. Operators will control the work remotely, viewing through radiation-proof windows and video cameras. With 150 kilowatts of output, the electron gun is twice as powerful as any other known machine of this type. It will be capable of making welds in 100 mm (4 ins) thick steel in a single pass at speeds up to 100 times faster than conventional arc welding. It is aimed at securing work from shipbuilders, boilermakers, and chemical process plants. Details from the institute on 0223 891162.

Tony France



Non-vacuum (atmospheric) 150kW EB welding system.

THE ARTS

Arts Week

F	S	Su	M	Tu	W	Th
16	17	18	19	20	21	22

Exhibitions

PARIS

Japon des Avant-Gardes: A multi-disciplinary exhibition of some 500 objects retraces the 1910-70 period in painting, architecture and technology and is completed by a musical, theatrical and cinematographical programme. The influence of Japanese art on Western culture is well-known, the European inspiration of modern creativity in the Land of the Rising Sun much less so. The exhibition shows the tensions and contradictions of artists trying to absorb futurism, Dadaism and surrealism, movements so alien to their own ancestral traditions. Centre Georges Pompidou. Closed Tue, Ends March 2 (4277 1233).

Tarento's Gold: Some 1000 exhibits, of which 250 are of gold or other precious materials, bear witness to the sumptuous way of life in ancient Tarento. Found in tombs, the treasure consists of earrings, bracelets and necklaces, all exquisitely worked by goldsmiths during the Hellenistic period. Even everyday objects are stamped with the same high artistic quality, as are delightful clay statuettes. Musée Jacquemart-Andre (4289 0491), closed Mon. Ends Feb 13.

France and Russia in the Century of Enlightenment: A didactic exhibition of 600 paintings, sculptures, objets d'art and rare manuscripts shows how cultural contacts between the two countries, practically unaware of each other at the beginning of the 18th century, grew to a constant flow of ideas and works of art by the end of it. The exchanges, begun by Peter the Great, became ever more intense under Catherine II who was fascinated by French philosophers and French aristocracy's art de vivre. Grand Palais (4289 5410), closed Tue. Ends Feb 8.

WEST GERMANY

Tübingen, Kunsthalle Philosophenweg 76: Toulouse-Lautrec. A retrospective of 120 paintings and picture studies by Henri de Toulouse-Lautrec (1864-1901). Ends March 15.;

Hannover, Sprengel Museum Kurt-Schwitters-Platz: Pablo Picasso, the exhibition is the most complete display of Picasso's works seen in Germany, showing the 417 pieces donated in 1969 by the industrialist Bernhard Sprengel. Sprengel, who died last year, was Germany's leading collector of Picasso's works. The exhibition, with 400 graphic art prints and 17 oil paintings covers the artist's complete artistic range from 1904 to 1968, spanning cubism, classicism and surrealism, as well as Picasso's most recent works. Ends Mar 15.

Münster, Westfälisches Landesmuseum, Domplatz 10: August Macke: To mark the 100th anniversary of his birthday, the museum, helped by the Macke archive and sponsored by the estate of Northrhein Westphalia, is displaying 160 paintings, 130 pictures, 70 watercolours and documents. Macke, born in Meschede (Westphalia), studied in Düsseldorf and Berlin under Lovis Corinth. Ends Feb 2.

ITALY

Venice: Palazzo Ducale: China In Venice: Chinese Civilisation from the Han Dynasty to Marco Polo (25–1279 AD): 150 objects, including silks, brocades, jewellery, terracotta figures, glass and porcelain lent by the Peking Museum. Many result from recent excavation, and most have never been out of China. The exhibition covers the main period of Chinese art, and the objects found in tombs, buried with the owner for his use in the hereafter, shed a fascinating light on life in the period. Ends March 1987.

NETHERLANDS

Groningen, Groninger Museum. The use of colour in modern European architecture from 1910 to the present. Ends Jan 25.

Amsterdam, Van Gogh Museum. The seven Van Gogh sketchbooks have now been reconstructed and are on display for the first time, with the associated drawings and paintings. Ends Feb 8.

SPAIN

Barcelona. Georges Braque. A retrospective gathers 128 drawings, tapestries, sculptures and paintings from 1900 to his death in 1963. Museo Picasso, Montcada 15-19, ends Jan 25.

Madrid. Masterpieces of the Wuppertal Museum, from Marees to Picasso. Works by relevant artists on loan by the Von der Heydt Museum in Wuppertal: Cezanne, Manet, Kokoschka, Leger, Gauguin, Schad illustrate one of the richest periods of history of art. Fundacion March, Castello 77. Ends Jan 25.

Madrid. Woodner Collection. 125 drawings and first original sketches of masterpieces painted by Vasari, Botticelli, Leonardo da Vinci, Raphael, Rembrandt, Holbein, Carracci, Goya up to Picasso. Prado Museum, Paseo del Prado. Ends Jan 31.

VIENNA

Gold and Power – Spain in the new world: To mark the 500th anniversary of the discovery of the Americas, this huge exhibition of treasures from the Museum of America in Madrid tells the story of the Spanish conquest. The collection, seen for the first time outside Spain, includes ornaments and utensils of indigenous Americans; beautiful Mexican mother of pearl pictures of the blood-and-thunder of the conquest, records of Jesuit missions in Paraguay and stunning gold statues and jewellery from a land mythologised as El Dorado. Vienna is the first stop for this exhibition, which will later travel to Cologne and Budapest. Kunstlerhaus. Ends Jan 25.

NEW YORK

Metropolitan Museum: 90 paintings from the end of Van Gogh's life are the focus of this second of a two-part show of the prolific artist at Saint-Remy and Auvers. The Starry Night and Cypresses come from this period working first in an asylum in Saint-Remy and then in Auvers, where he committed suicide in July 1890. Ends March 22.

Museum of Modern Art: The 1985 Grand Palais exhibit of Lartigue's 1920s photographs starts its American tour showing the evocative panoramas and fleeting moments on the streets of Paris between the wars. Ends March 24.

Metropolitan Museum of Art: The Prints of Pieter Bruegel with over 65 works consists primarily of engravings made in Antwerp in the 1560s after Bruegel paintings, but also includes the only woodblock with a Bruegel drawing on it. Ends March 15.

CHICAGO

Art Institute: The art of Italian Renaissance armourers, with suits embossed with Greek and Roman deities and fantastic creatures of the artists' imagination, is on display in a special exhibit of French king Henry II's armour borrowed from Hever Castle. Ends Mar 1.

TOKYO

Ukiyo-e Traditional Woodblock Prints: Special exhibition on theme of feminine beauty by artists from late Edo period to Meiji spanning nearly 400 years. Azabu Museum of Art, in Azzabu Juban. (582 1857). Ends Jan 25. Closed Mondays.

Opera and Ballet

LONDON

Royal Opera, Covent Garden: the new production of Otello by Elijah Moshinsky, conducted by Carlos Kleiber, presents on stage the three stars of the recent Otello film – Domingo, Ricciarelli, Diaz. Further performances of the rather subfusc Lucia di Lammermoor revival, with June Anderson in the title role.

English National Opera, Coliseum: this week the ENO presents in repertory two of the most heavily criticized productions by the company's director David Pountney – this season's rubbish-dump Carmen, with Sally Burgess, and a revival of The Queen of Spades, Tchaikovsky's romantic opera turned into a murky psychodrama, with Alan Woodrow and Janice Cairns. Further performances of Die Fledermaus, with Valerie Masterson and Lillian Watson as a scintillating Adele.

PARIS

Ballets van Dantzig: Sans Armes, citoyens to music by Hector Berlioz, conducted by Lothar Zagrosek at the Paris Opera (4266 5022).

Atys, a 5-act tragedy of Jean-Baptiste Lully (1632-1687) conducted by William Christie in Francine Lancelot's choreography in co-production with the Florence Teatro Communale and the Montpellier Opera alternates with Bal a la Cour de Louis XIV to music by Marais, Campra and Lully, conducted by William Christie in Louis-Guillaume Pecour's choreography reviewed by Francine Lancelot at the Opera Comique (4296 0611).

WEST GERMANY

Berlin, Deutsche Oper: Die Macht des Schicksals has fine interpretations by Mara Zampieri and Giorgio Merighi. The Magic Flute takes the leads Eva Lind, Lucy Peacock and Gerd Feldhoff. Die Hochzeit des Figaro brings Pilar Lorengar, Carol Malone, Gudrun Sieber, Wolfgang Brendel and Bengt-Ola Magnusson together. Prokoviev's ballet Romeo et Juliet closes the week.

Hamburg, Staatsoper: Der Rosenkavalier is a fine performance with Teresa Zylis-Gara, Brigitte Fassbaender and Franz Grundheber. Carmen is steered to triumph by Teresa Berganza, brilliant in the title role. Zemlinsky's rarely played Eine Florentinische Tragödie/Der Geburtstag der Infantin features Elisabeth Steiner, Inga Nielsen, Olive Fredricks and Kenneth Riegel. Le Nozze di Figaro is a joint project between Hamburg and Salzburg – Mozarteum. Katja Kabanowa stars Nadine Secunde, Daphne Evangelatos and Franz Ferdinand Nentwig. Also offered Otello and Turandot, both will be conducted by Giuseppe Patanè.

Katia Ricciarelli and Placido Domingo in the London Royal Opera's production of Otello.

Frankfurt, Opera: Die Walküre is revived with a new cast led by Lia Frey-Rabine, Ellen Shade, Sandra Walker, Wolfgang Probst and Walter Raffeiner. Le Boheme is a Volker Schlöndorff production. The week also features Jenufa and Hoffmanns Erzählungen.

Cologne, Opera: Lucia Alberti is repeating her much praised performance in the title role in Lucia di Lammermoor. Moses and Aron has Siegfried Haertel and Günter Neumann in the main parts. Der Rosenkavalier was well received when it opened. A Brigitte Fassbaender Lieder recital, accompanied at the piano by Irwin Gage (Wed) rounds off the programme.

NETHERLANDS

Amsterdam, Muziektheater. Mussorgski's Boris Godunov performed by the Netherlands Opera conducted by Hartmut Haenchen and directed by Harry Kupfer, with Robert Lloyd in the title role (Mon, Thur). Ballet gala evening with soloists from the New York City Ballet, London Festival Ballet, Stuttgart Ballet and the Dutch National Ballet (Wed). (255 455).

Scheveningen, Circus Theatre. Nederlands Dans Theater with Heart's Labyrinth (Kylian/Schönberg), Children's Games (Kylian/Mahler), and a new ballet by Ed Wubbe (Thur). (55 08 00).

Maastricht, Schouwburg. La Traviata performed by the Compagnia d'Opera Italiana di Milano (Wed). (21 33 00).

WASHINGTON

Washington Opera (Terrace): Monteverdi's Coronation of Poppea directed by Christopher Alden and conducted by Nicholas McGegan puts Nero's Rome in a contemporary big-business setting with Emily Golden, Rodney Hardesty and Will Roy. The week includes Strauss's Wiener Blut starring Sheryl Woods in Zack Brown's 1980 production and Don Pasquale in a new production by Douglas Wager conducted by Cal Stewart Kellogg with Francois Loup in the title role, Pamela South as Norina and Gran Wilson as Ernesto. The 1982 English-language production of The Abduction from the Seraglio continues, conducted by Arnold Ostman with Joyce Guyer as Constanze, David Kuebler as Belmonte and Kenneth Cox as Osmin. Kennedy Center (254 3695).

Continued on Page 15

Theatre

NEW YORK

Cats (Winter Garden): Still a sellout, Trevor Nunn's production of T.S. Eliot's children's poetry set to trendy music is visually startling and choreographically feline, but classic only in the sense of a rather staid and overblown idea of theatricality. (239 6262).

42nd Street (Majestic): An immodest celebration of the heyday of Broadway in the '30s incorporates gems from the original film like Shuffle Off To Buffalo with the appropriately brash and leggy hoofing by a large chorus line. (977 9020).

A Chorus Line (Shubert): The longest-running musical ever in America has not only supported Joseph Papp's Public Theater for eight years but also updated the musical genre with its backstage story in which the songs are used as auditions rather than emotions. (239 6200).

La Cage aux Folles (Palace): With some tuneful Jerry Herman songs, Harvey Fierstein's adaptation of the French film manages, barely, to capture the feel of the sweet and hilarious original between high-kicking and gaudy chorus numbers. (757 2626).

I'm Not Rappaport (Booth): The Tony's best play of 1986 won on the strength of its word-of-mouth popularity for the two oldsters on Central Park benches who bicker uproariously about life past, present and future, with a funny plot to match. (239 6200).

Big River (O'Neill): Roger Miller's music rescues this sedentary version of Huck Finn's adventures down the Mississippi, which walked off with many 1985 Tony awards almost by default. (246 0220).

The Mystery of Edwin Drood (Imperial): Rupert Holmes's Tony-winning resurrection of the unfinished Dickens classic is an ingenious musical with music-hall tunes where the audience picks an ending. (239 6200).

LONDON

Les Liaisons Dangereuses (Ambassadors): Christopher Hampton's masterly version of Laclos' epistolary novel is sexy, witty and wise, like a collaboration between Marivaux and de Sade. Howard Davies's sell-out pre-Revolutionary production for the RSC has moved from the Pit with Alan Rickman and Lindsay Duncan still battling and bitching over lovers and other riffraff. (836 6111, CC 836 1171).

Misalliance (Barbican): Rarely seen Shaw, and a much underrated play, given the full RSC works by John Caird, a Polish new woman crashing into the stuffy conservatory in her monoplane. Jane Lapotaire sparkles alongside Brian Cox, Elizabeth Spriggs and newcomer Richard McCabe (628 8795, CC 638 8891).

The Phantom of the Opera (Her Majesty's): Spectacular but emotionally nutritional new musical by Andrew Lloyd Webber emphasising the romance in Leroux's 1911 novel. Happens in a wonderful Paris Opera ambience designed by Maria Bjornson. Hal Prince's alert, affectionate production contains a superb central performance by Michael Crawford. A new, meritorious and palpable hit. (839 2244, CC 379 6131/240 7200).

Woman in Mind (Vaudeville): Alan Ayckbourn's new comedy has a brilliant performance by Julia McKenzie as a dissatisfied housewife visited on her own garden lawn by an imaginary ideal family. Bleak but funny, hailed in some quarters as vanguard feminist drama; be not put off by that. (836 9987/5645).

42nd Street (Drury Lane): No British equivalent has been found for New York's Jerry Orbach, but David Merrick's tap-dancing extravaganza has been rapturously received. (836 8108).

CHICAGO

Pump Boys and Dinettes (Apollo Center): Facetious look at country music and down-home country life with a good beat and some memorable songs, especially one played on kitchen utensils has proved to be a durable Chicago hit. (935 6100).

Ghost on Fire (Goodman): The latest play by Michael Weller, called the Chekhov of his generation for his intelligent sadness in plays like Moonchildren and Loose Ends, follows two college friends who try to rekindle their inspiration after making money in Hollywood. Les Waters directs Dawn Arnemann, Peter Aylward and Bill Cobbs. Ends Feb 14. (443 3800).

My Werewolf (Goodman Studio): Theatre X production written by John Schneider tells the werewolf legend as a 1940s horror movie, with all the exaggerations of romance, terror and eerie music for the stage. Ends Feb 22. (443 3800).

WASHINGTON

Les Misérables (Opera House): The American tour that will end up on Broadway again in the new year begins in Washington as a celebration of the British musical's leap beyond its American forebears. Ends Feb 14. (254 3770).

Arsenic and Old Lace (Eisenhower): Jean Stapleton stars in the old chestnut comedy about two proper ladies who put poor men out of their misery with their nephew burying the bodies thinking he is Teddy Roosevelt building the Panama Canal. Ends Feb 14. Kennedy Center (254 3670).

THE ARTS

Cinema/Nigel Andrews

No escaping the American Armageddon

Down By Law, directed by Jim Jarmusch

Walls of Glass, directed by Scott Goldstein

Short Circuit, directed by John Badham

A Love Bewitched, directed by Carlos Suara

Rocinante, directed by Eduardo Guedes

Vamp, directed by Richard Wenk

Tom Waits, John Lurie and Roberto Benigni in "Down by Law"

One always knew it would come to this: human beings on the run and robots in the ascendant. The Armageddon according to American cinema is spelt out with gleaming clarity this week. *Short Circuit* is about a rogue robot cutting up rough in middle America. *Walls Of Glass* is about the human soul at the end of its tether in New York. And in Jim Jarmusch's *Down By Law* three Louisiana jailbirds make an escape bid via alligator-ridden swamps, pursuing police posses and the frequent ambush of B-movie dialogue and plot situations.

Down By Law is Jarmusch's second film, following his po-faced comedy about another trio of oddballs at large in the US wilderness, *Stranger Than Paradise*. Here again our colour-cosseted retinas are rudely awakened by a movie in primal black-and-white. Jarmusch invents a world entirely his own. It may be called New Orleans—or in the map-hopping earlier film, New York or Northern Florida—but it is a pixillated, monochrome no-man's-land compounded from a meeting between Warhol minimalism and Warner Brothers melodrama.

Jarmusch's characters tend to be swept up straight off the streets and dumped into his movies. Here, they are a down-and-out disc jockey from Detroit (played by singer Tom Waits), a tall saturnine pimp (John Lurie) and a semi-demented Italian (Roberto Benigni), who tries to keep the party spirit going when all three men, through entrapment or trumped-up charges, find themselves in the same jail cell.

If the Marx Brothers had ever put on *Waiting For Godot*, it would have been like this. In early scenes, tragi-comic dolefulness masquerades as a dialogue with destiny. The moody, litter-strewn night streets play host to non-sequiturs and crack-pot dialogue. ("If you were a good pimp, you would have hit me by now!" screams a black prostitute to Lurie's ineffectual pimp trying to sort out a client crisis). And once in jail, Jarmusch mixes scripted dialogue with improvisation. Each man exercises his litany of private obsessions in a verbal jam session that is the movie's tribute to its jazz-capital setting. Funniest is Benigni, whose English is made up of tortured commonplaces gleaned from a *phrase-book* ("There ees not enough room to sweeng a ket").

Once the three men have broken out, the film becomes at once faster and thinner. The helter-skelter of incidents—alligators, swamps, sinking canoes—have the air of a director exorcising his amour fou for Hollywood melodrama. ("We have escaped like een the American movies!" cries Benigni). Only when they fetch up finally in a wildly improbable cabin in the woods, owned by a comely Italian girl, does Jarmusch's po-faced magic return. *Down By Law* is a modest, likeable, existential comedy about three characters looking for a way to be free, and for a use to put that freedom once they have it. It is also about a film director searching, not always convincingly, for a way to use the freedom he's inherited after a hit debut.

★

In Scott Goldstein's engaging but somewhat ponderous *Walls Of Glass* we have another search for self-emancipation. A New York cab driver (Philip Bosco) wants to be a Shakespearean actor. Odzounds!: There he is, in our first glimpse of him, gabbing away in an acting class before a chillingly impassive teacher. Richard II's Act 5 soliloquy — "I have been studying how I may compare this prison where I live . . ."—clearly strikes a chord with this bluff, fiftyish cabbie who spends his days immured in the "glass walls" of his taxi. Too much of a chord for the teacher's liking. "Don't endow it with your own crap," he says succinctly, and more criticisms to that effect.

Does this deter our hero? Not a jot. He continues to lumber about Manhattan looking for a career opening. And meanwhile he bats away brickbats from his family, who include a sex-mad son who watches TV evangelists while making love, a wife who's having an affair, and a mother who is played with an explosion of tics and tropes by Geraldine Page as if limbering up for her own Oscar assault in *The Trip To Bountiful*.

The result is a creaky movie with the odd rheumatic twinge of modernism, especially when Bosco's remarkable resemblance to Geraint Evans reminds us of the character's likeness to Buchner/Berg's Wozseck: a lumpenprole in crisis, bearishly searching for truth and beauty. But too often the film, plainly acted and gauchely scripted, seems no more than the stilted cautionary tale of an over-ambitious dreamer going from Bard to worse.

The human spirit clearly has its back to the wall in modern America, a fact which gives robots the rest of the landscape to run amok in. *Short Circuit* is one of the unfortunate things that can result. A cute android escapes from the Nova Robotics laboratory complex after a lightning bolt has endowed it with a mind of its own. (Abandon hope of plausibility, all you who enter here). Soon the mischievous machine which has all the charm of a household vacuum cleaner vainly trying to imitate ET, has stumbled into the haven of a quaint little house owned by pretty Ally Sheedy. Here the robot has his showdown with his pursuers and also, earlier, his only funny line in the film: eyeing Miss Sheedy's scanty-clad person at bedtime, he murmurs. "Hmm—attractive, ni-ce software!" Elsewhere wit is in short supply and credibility is nowhere in sight. John Badham (of *War Games*) directs and Steve (*Police Academy*) Guttenberg is the handsome young scientist giving tireless and tiresome chase.

★

Carlos Saura's *A Love Bewitched* starts for this writer with an almost insurmountable obstacle. It is a flamenco musical. Flamenco dancing is for me one of the seven unwanted wonders of the world (full list available on subscription). Why the act of simultaneously *stamping out* cockroaches and catching mosquitoes above your head should have been ritualised by the Spanish into a national dance form is a mystery. However, here we have the experts: Antonio Gades, Cristina Hoyos, Laura Del Sol and company, in the third of their films for Saura, following *Blood Wedding* and *Carmen*.

In fact this one is rather good. It first punctures the breath with admiration when the camera cranes down from a light-studded soundstage ceiling to a stunningly realistic set of a Spanish shanty village. Thereafter, while the skydrop mutates expressively from white-hot noons to rose or amber sunsets, a triangular love tale unspools with not a little tragic force and not a little Manuel de Falla music to back the bravura stamping of the cast. Despite the odd chilling moment ("Let the grannies dance," says someone, and they do), it is musically and visually a feast.

This is more than one can say for Ann and Eduardo Guedes' *Rocinante*. This British film takes its title from Don Quixote's horse and its structure from the picaresque novel. John Hurt is the innocent afoot who travels through the English countryside seeking a girl (Maureen Douglass), a purpose and the Meaning of Britain. But beneath the tranquil pastoral surface—the rolling hills and stately homes—he discovers nasty things: the age-hold scars of working-class poverty, the evidence of newer conspiracies by Them against Us.

"Them" in this instance turn out to be the Coal Board, and our plucky heroine Miss D becomes involved in a hi-tech anti-NCB sabotage campaign. Blending the mythical-historical with the tinpot-contemporary the film never really gets the mixture right.

★

But at least is is better than *Vamp*. Here Grace Jones is a stripper-cum-vampire who performs open throat surgery on passing victims in the privacy of her nightclub dressing room. Chris Makepeace and Sandy Baron are the youngsters caught *in her toils. And you, if you* are unlucky, are the audience caught up in a daft movie relieved, but not redeemed, by the odd witty line.

Alastair Muir

Stephen Simms and Melinda McGraw

Twelfth Night/Donmar

Martin Hoyle

By any Twelfth Night the Christmas pudding, however plum-packed and trinket-stuffed, begins to pall. This Illyrian confection reveals director Declan Donnellan to have come perilously near to over-egging the pudding. Undercurrents, tensions, sub-plots, telling bits of business, the intellectual equivalent of double-takes abound. Bringing out the sub-text is one thing; but at times the enterprising and lively Cheek by Jowl company seems to be submerged in sub-texts; and one ungratefully longs for them to play it straight.

Much is right about the first half of a production that correctly takes as its point of reference not Epiphany revels nor Malvolio's midsummer madness but the tremelous warmth of spring, a tentative burgeoning into emotional maturity. Some details add dimensions to a marvellous degree. Toby and Maria have obviously had an affair; he avoids her eye, she is tearful; she finally forces his hand with her mention of marriage in front of the assembled company. Sebastian and the grizzled sea-dog Antonio exchange passionate kisses (confirming what we always suspected about that particular relationship), though Sebastian regrets it and nervously shushes every reference to love. And needless to say, Orsino is attracted to Cesario—at first delicately hinted at as each pulls away, startled, from a threatened caress.

More questionable is Feste's pining for the hunky Andrew Aguecheek — a whooping young Texan, delighted at buying deeds to the noble title from a Toby in a yacht-club blazer, evidently a saloon-bar salt. The sheer cleverness of a rearranged opening is almost exhausting and frequently distracting: the first lines are Viola's; Orsino and Olivia come on as mentioned in the sea captain's speech, and "if music be the food of love, play on" is the last line of the scene — a saxophone solo prompts Orsino to continue a trifle defensively.

Gags, jokes and twists abound; and for an hour and a quarter keep the play resilient, buoyant and effervescent. What is beyond doubt is the quality of some of the playing. Patricia Kerrigan's Viola suffers a metamorphosis, in white suit and trim trilby, into a Cesario who looks disconcertingly like Aled Jones, but displays the company's gift for speaking the lines absolutely naturally but beautifully as well.

On a par with this fresh, direct and heartfelt Viola is one of the best Malvolios of my experience. Hugh Ross is prim and purse-lipped, elegant in a three-piece suit, a smoothie young executive without a grain of humour who finds the heat better as he takes the sun with canvas stool and picnic basket, taking out his lunch box at the stroke of one. His purring, vindictive menace (he is one of the quietest Malvolios ever) leaves no doubt about his power; and Maria launches the plot against him not in a spirit of fun but cold, determined anger.

Maria is a Brooklyn-accented glamour-puss (the attractive and talented Melinda McGraw) first dressed as a Lyons nippy, then a nurse: given the heated emotional climate, one wonders whether fetishism is practised below stairs at Olivia's. Certainly the small-hours boozing session, the reprobates reaching a maudlin musical climax with "My way" as an aghast Malvolio slips, unnoticed, into their midst, is memorable. As ever, Nick Ormerod designs; the song settings are not very appealing. The production has much to stimulate, amuse and move; but if only it could relax more.

France and Russia/ Grand Palais, Paris

Magda Hamsher

It is only fitting that the entrance to this exhibition at the Grand Palais in Paris should be dominated by the equestrian statue of Peter the Great. The portrait of the Tsar, carried out by Falconet and his daughter-in-law (the original remains in Leningrad) sums up perfectly the theme of the exhibition *La France et la Russie au Siècle des Lumières.*

Some 600 paintings, sculptures, tapestries, *objets d'art*, letters and publications of the great authors of the time tell the story of how the two countries were practically unaware of each other at the beginning of the century and how, by the end of it, French had become the first foreign language of the Russian aristocracy, Voltaire's wit and intelligence a model for salon conversations and furnishings and furniture in the French style and setting of their lives.

It was Peter the Great who, eager to modernise his country, invited French artists and craftsmen to come to Russia and encouraged military and scientific exchanges.

Catherine II's interest in France was even more intense. She became patron of the arts and a friend of the philosophers. So much so that the Russian Imperial collections became richer in "modern" painters than those of the French kings.

There is a whole group of them here. The large canvas of "Le Paralytique" shows how Greuze the moralizer imbued a genre painting with gravity hitherto reserved for historical paintings. To the modern eye his lively preparatory sketches might seem more attractive. There is a still life by Cardin which lacks the poetry he usually brings to everyday objects. Hubert Robert's grandiose antique ruins were so prized by Russian collectors that the Hermitage alone possesses 50 of them and to this day some Russian palaces own entire decorative ensembles by him. Two paintings of the Grande Galerie du Louvre are of special interest as he was one of the first curators of the then newly-constituted museum.

Among French painters who travelled and worked in Russia there is Tocqué, Le Prince and Madame Vigée Le Brun. Le Prince, pupil of Boucher, produced engravings, oils and cartoons for tapestries full of pleasing exotica. One is struck by a remarkable autoportrait of Madame Vigée Le Brun, where she succeeded in catching a moment of arrested action while holding pertly the beholder's eye. The erstwhile portraitist of Marie-Antoinette, in gradually shedding superfluous accessories, strove for psychological truth as did the Russian masters hanging here. Objects of splendour and pomp stood high in the 18th century's hierarchy of artistic values—and desires.

Several pieces of Catherine's porcelain service with cameos against a celestial blue background are exhibited here. They were part of the largest single command Sèvres had ever executed. Even Catherine had to pay for it in four instalments.

There are magnificent examples of Paris silversmith work here. Terrines and candlesticks from Catherine's "service de Paris" and some equally important pieces from the Orlov service she ordered for her favourite. Sadly the lay-out of this exhibition fails to put these truly rare exhibits into the context they deserve. There must have been a way to help us to imagine what the Sèvres service was like when it consisted of 744 pieces for 60 guests, how the "Paris" silver service dazzled when — complete — it weighed 160 kilos.

The exhibition is on until February 8 at the Grand Palais.

SPNM/St. John's, Smith Square

David Murray

In the Society for the Promotion of New Music concert on Wednesday, absolutely nothing was musically new, not even by relaxed standards. It was almost as dispiriting as the weather (which had reduced the audience to a tiny band of friends, colleagues and critics): instead of the usual healthy quota of pieces which are privately significant but opaquely realised—just what the SPNM should be promoting—we got competent exercises in familiar, undemanding forms.

We have, after all, more music than we know what to do with. "New" music is seriously interesting only when it's vividly individual, or exploits musical possibilities in new ways. For better or worse, there's no longer a market for honest contributions to well-tried modern genres (popular music is different). What we heard on Wednesday was at best no more than that. One positively yearned for something unintelligible and tantalising; a whole concert of thin, genre-bound stuff isn't what one wants from the SPNM.

That isn't to claim that Wednesday's young composers are mere *routiniers*, but only that these pieces demonstrated nothing more. *Gandharva Music I*, by the Indian Priti Paintal, was a modestly effective cantata for mezzo—fast declamation relieved by slow recitatives—that employed an Indian raga, a "gapped" scale, just as a thousand Latin American composers have spiced an easy form with ethnic inflections. Jan Steele's *The Victoria Incident Part III* for two pianos married gamelan-patterns to chic 1960s rag (a passing phase among the systems-music crowd): *anybody* can hear that real gamelan bands and real period-rag are more fun.

Philip Feeney's *But Back at Seven*, a theatrical seven-section piece for pairs of pianists and percussionists, cried out for dancers to do something with it. By itself it remained a surface-colour sequence of bass-register rumbles from the pianos and evocative clatter from the percussion; once or twice there were close, embarrassing reminders of how much more Bartók invented for such an ensemble in his Sonata. From Javier Alvarez, a likely familiar spirit, we had a tidy one-off experiment in *Ki Bone Gaku*, which set trombone and piano to making an energetic duet out of rigorously distinct material, very dry: once was *sufficient*.

The loyal pianists in these things were Julian Jacobson and Andrew Ball, the expert percussionists Simon Limbrick and Martin Allen. The mezzo Mary King not only made Miss Paintal's *Gandharva* plausibly dramatic (while it lasted), but lent resourceful subtlety to Rhian Samuel's setting of "In the Hall of Mirrors," a clumsy poem by the American James Merrill. I thought it the most interesting exhibit of the concert. Though Miss Samuel's musical elements were mere Ravel-and-after, nowadays a superflous commodity, she had devised a shapely musical form for the ill-focused verse that both drew out its sense and made a smooth musical sequence. I can imagine her applying that elegant knack to literary or dramatic material on a grander scale; her kind of gift doesn't wait upon radical musical discoveries, but simply upon finding a decently rich text.

Action against 'cowboy' museums

A drive to curb "cowboy" museums has been launched by the Government - appointed Museums and Galleries Commission. The commission is launching a scheme for the registration of museums which achieve approved standards.

Announcing the move in London yesterday, Mr Peter Longman, commission secretary, said: "Registration will be a seal of good housekeeping and will help drive the 'cowboy' off the museum scene and to ensure that public funds are not wasted on fly-by-night or ill-conceived ventures."

Twenty years ago there were about 800 museums in Britain. Today there are 2,000 and at least one new museum opens every fortnight. The commission was concerned that a number of antiques dealers had opened their own "museums" and were selling their "collections" to the public.

"Registration will require minimum standards and help to ensure that the public is not misled and receives real value for money," said Mr Longman. The commission, which is chaired by Professor Brian Morris, was also concerned that some ill-conceived museums, with neither collecting policies nor proper safeguards for collections, might receive funding from local authorities.

Other initiatives launched by the commission, which has this year been granted a Royal Charter, include the setting up of a conservation unit and provisions for touring exhibitions.

The organisation also plays a role in the scheme which allows works of art to be accepted in lieu of inheritance tax.

A. McA

Saleroom/Annalena McAfee

Lead soldiers popular

Phillips' specialist sales of lead soldiers and models continued to attract keen prices. A total of £174,000 was made in three parts of a four-part sale in London on Wednesday and Thursday. An auction record for lead soldiers was set by an American private collector who paid £11,000 for a rare 275-piece set of British soldiers.

Private enthusiasts led the bidding throughout the sales. The British collector and dealer D. W. Pressland paid £3,600 for a German wood and papier mache Royal Horse Artillery gun team of the Crimean War. The American collector, Earl Josey, paid a total of £9,200 for three lots: a 21-piece band of the Royal Marines, a set of the cavalry of the British army, and a mounted band of the First Life Guards.

The private American collector, R. Schenk, who is said to keep the original gates of the German Reichstag on his Texan farm, paid £2,600 for a 1928 set of the Russian and Japanese cavalry and infantry.

In New York on Wednesday, a sale of Old Master drawings made a total of $1,150,372 (£760,457) with 7 per cent unsold.

The top lot was Fragonard's "The Gardens of the Villa D'Este," which was bought for £127,892 by a private collector.

Continued from Page 14

Opera and Ballet

CHICAGO

[illegible]

TOKYO

[illegible]

NEW YORK

[illegible]

Music

LONDON

[illegible]

PARIS

[illegible]

NETHERLANDS

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TOKYO

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WASHINGTON

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Modest hope for Geneva

THE SOVIET UNION'S decision to appoint a new and more eminent chief negotiator at the nuclear arms control talks in Geneva is obviously, though from a fairly limited perspective, an encouraging sign; for it implies that, despite the breakdown of the far-reaching Reykjavik talks last autumn, and despite Mr Reagan's difficulties over the Contra-gate scandal, Mr Mikhail Gorbachev is still eager to negotiate an arms control agreement with the Reagan administration.

The difficulties of negotiating such an agreement remain just as taxing in technical terms as ever, but at least the Soviet Union gives no sign of giving up the attempt, nor even of postponing the effort in the hope that a more accommodating President might be elected next year.

It would probably be a mistake, however, to be too carried away by the case for optimism, real though it is. The Soviet Union continues to have powerful reasons for wanting a nuclear arms control agreement with Washington. The implications of the Reykjavik meeting, however, were that such an agreement is not attainable with President Reagan on terms that could be acceptable to Mr Gorbachev, even though both leaders profess to share a virtually common ambition for a world without nuclear weapons.

Permanent need

The Soviet need for a nuclear weapons deal is nevertheless permanent and structural, according to the analysis consistently and plausibly put forward by Mr Gorbachev. The Soviet economy needs to be modernised, which means (among other things) releasing resources from defence; not only would a major nuclear weapons reduction agreement, coupled with a reduction in conventional forces, be an efficient way of releasing such resources, it would also be a safe way if it took the form of an East-West agreement. So long as Mr Gorbachev remains Soviet leader, therefore, it is most unlikely that Moscow will do anything which appears to rule out the arms control option.

From this point of view, therefore, it may be that the routine resumption of the Geneva arms talks says more about the general posture and aspiration of the Soviet leadership, than about the prospects of reaching any agreement.

Several obstacles now stand in the way of an agreement between the Soviet Union and the Reagan Administration. The first, largely technical problem, is that time is now very short for concluding and ratifying an agreement before the end of the Reagan presidency less than two years away. Time is particularly short, given that any package must include at least two major, interlocking agreements, on strategic weapons and space systems, and probably a third as well, on Euro-missiles.

Daunting conclusion

The second, more substantive problem is that the Reykjavik summit appeared to establish that there is no basis for an agreement on the first two interlocking issues. Both superpowers seem ready to agree in principle on deep cuts in strategic nuclear weapons of about 50 per cent. But it is obvious that the Russians will not carry through such an agreement of principle, unless they get satisfactory guarantees against the deployment of American space defences. No one should expect them to agree to a deal by which one half of their nuclear deterrent would be negotiated away, and the other half could, at least in theory, be rendered "impotent and obsolete" by President Reagan's Star Wars programme.

It remains hard to interpret the deepest intentions of the two leaders at Reykjavik, when they apparently contemplated the elimination of all nuclear weapons. Mr Gorbachev may have drawn one daunting conclusion, however: that there is no reduction in offensive weapons, however deep, which would induce President Reagan to endorse effective long-term curbs on the deployment of space defences.

The balance of probability may be, therefore, that the negotiations in Geneva will be pursued conscientiously at the technical level; that since there is at least a large measure of declaratory agreement on the principle of a 50 per cent cut, technical progress will be made; but that unless President Reagan, in an effort to forge a foreign policy triumph which could cut the toils of Contra-gate, were to have a profound change of heart over the sacrosanctity of Star Wars, no agreement will be concluded until a new president comes along.

The charisma of Maynard Keynes

IT IS an extraordinary fact that more than 40 years after his death, Lord Keynes is still more quoted than any contemporary economist. He lives on in newspaper columns, pamphlets and learned articles while most of his academic opponents of the 1930s—such as Prof Pigou—are long since forgotten. The latest confirmation of Keynes's continuing importance comes, oddly enough, from the Institute for Economic Affairs, which today publishes a series of essays on Keynes by free-market luminaries such as Professors Milton Friedman and Alan Walters.

Keynes's continuing prominence is partly a reflection of his genius as a polemicist. Who else would have thought of telling the Treasury, only half in jest, to cure mass unemployment by filling up old bottles with banknotes, burying them in disused coalmines, and inviting private enterprise to dig them up again according to the "well-tried principles of laissez faire?" Who else would have likened stockmarket investment to, among other things, judging a beauty contest or playing a game of musical chairs?

Nature transformed

Wit, however, is only a small aspect of the Keynes phenomenon: nobody now pays any attention to Bernard Shaw's equally amusing economic writings. Keynes, as even his detractors accept, almost single-handedly transformed the nature of economics as an academic discipline. Before him, the subject consisted of little more than the Quantity Theory of Money and the micro-economic analysis of individual markets. It is little exaggeration to say that the entire post-war edifice of macroeconomics, with its focus on aggregates such as consumption and investment rose on the foundations laid by Keynes in the 1930s, when such thinking was revolutionary.

The IEA's collection of essays, a slightly mistimed attempt to mark the 50th anniversary of the publication of Keynes's theoretical tour de force, the General Theory of Employment, Interest and Money, hardly does justice to the great man. It seems odd, to say the least, to attempt to assess Keynes's relevance by publishing essays only by economists who are hostile to his arguments. The contributions fail to address the central arguments of the General Theory, many of which are still unresolved.

Keynes criticised economists in the 1930s for failing to pay sufficient attention to the fact that many of the assumptions on which their theories rested do not hold good in the real world. As he wrote: "It may well be that the classical theory represents the way in which we should like our economy to behave. But to assume that it actually does so is to assume our difficulties away." Unreal assumptions, which still litter textbooks and papers in the 1980s, include: markets which clear instantaneously; firms which enjoy no economies of scale and which engage in atomistic competition; and consumers who have perfect information about the present and future.

Real-world problems

The long dole queues of the 1930s were, for Keynes, prima facie evidence that Adam Smith's invisible hand could not be relied upon to cure all economic evils in a capitalist economy. Classical economics was not wrong, merely inapplicable: it was as though mathematicians were trying to apply Euclidean geometry in a non-Euclidean universe. If Keynes served no other purpose, he at least prodded the economics profession into coming to terms with real-world problems.

There is no doubt that Keynesian principles have been misapplied: the dosage of deficit financing especially in the 1970s, was often too high. But Keynes can hardly be blamed for political frailties any more than scientists can be blamed for Hiroshima. It is interesting that the economic tide which turned against Keynes in the 1970s, with the advance of monetarism, is already beginning to turn. Governments are again laying more emphasis on demand, but they are also doing much more than in the 1960s to liberalise markets—a balance of policies which Keynes might well have approved.

PLACIDO DOMINGO's triumphant return to Covent Garden on Tuesday evening in the role of Otello—an event for which his fans queued all through the coldest night of the year—had a more sombre side to it which attracted less publicity.

It was sponsored by Morgan Grenfell, the merchant bank which finds itself at the heart of the Guinness affair. Only hours before Lord Catto, the bank's chairman, welcomed his guests to a champagne buffet in the opera house's glittering Crush Bar, it had been announced that he was to head an internal inquiry into Morgan to find out what went wrong—and put it right.

That news not surprisingly, competed strongly with the magnificence of Domingo's performance and Verdi's music as the chief topic of conversation among the captains of City and industry whom Morgan had assembled for the occasion. And the conversation had a deeply worried tone.

The Guinness affair has plunged the City into a mood of gloom, anxiety and even, in some quarters, despair. People with long memories say they cannot recall a time when the City's reputation has been so badly battered by scandal, or when the threat of political repercussions had loomed so large. It is one of those moments when the City realises how few friends it has either in Westminster where Labour is gearing up for the attack and even the Tories are deeply embarrassed, or in the country at large where Guinness has merely confirmed the popular view of the City as a rich elite with an arrogant contempt for the law.

"There is no question that any event which damages the City's standing with the people who use its services or undermines their confidence is extremely serious," said Sir Martin Jacomb, the chairman of BZW, the Barclays group investment bank. "But it is also important for everyone to understand how difficult it is for any of us in the City to comment responsibly while the matter is under investigation."

The City's biggest worry is that the Guinness affair, with its allegations of illicit share dealings and no-holds-barred takeover tactics, will produce pressures for a regulatory crack-down which the Government will not be able to resist.

If it came to the worst, even the system of self-regulation introduced for the Big Bang last year might be vulnerable. This system granted the City wide-ranging rights to regulate its own affairs rather than be kept in order by a government agency. That the City appears, so quickly, to have abused those rights might be construed as a breach of faith deserving retribution.

But amidst the shock and fear, the City is trying to rally its forces. Many senior executives in merchant banks and broking houses are already calling for initiatives within the Square Mile to clean up financial practices, both as an act of contrition and to forestall a regulatory crackdown from Westminster. They are also urging action through bodies like the newly created City Task Force (a joint City-CBI body) to impress on industry "that we are not all a bunch of crooks" as one of them put it.

They feel frustrated because many of the broadsides being fired by the City's critics are wide of the mark. People say it is wrong, for example, for Labour to blame the Guinness affair on the failure of self-regulation because the alleged misconduct by Guinness took place before the new regime imposed by the Financial Services Act came into force.

And even if the FSA had been in force, it only has a partial relevance to the Guinness affair, where the allegations concern possible breaches of the Companies Act—which already carries severe penalties including fine and imprisonment—and where the protagonist, a brewing company, would not even have been covered by the FSA. What could still happen, though, is that any City institution which emerges from the Guinness affair in a way that is less than "fit and proper" could lose its authorisation to carry on an investment business under the new regime.

"They don't understand us" was a cry frequently heard in the Square Mile this week. As the City sees it, the issues raised by Guinness do not touch on fundamental questions of regulation, but on better enforcement of existing laws and rules.

The traditional, yet still powerful arguments, about the success of the City as a world financial centre and its contribution to Britain's foreign earnings are also being deployed. The Bank of England, which exercises an unofficial stewardship over the City's affairs, is keeping a profile that is low, even by its own discreet standards, though it is watching closely.

Yet the need for action is clearly pressing. The senior executive of one merchant bank said: "People should not sit around quivering with indecision. We believe there must be some action quite soon, like in the next week or two."

Since the City's view is that the Guinness affair is above all about the conduct of takeovers, many eyes have turned towards the Takeover Panel as a source of possible initiative. This voluntary body administers the Takeover Code, a complex set of rules on how takeovers should be conducted. At the very least, it is argued, the Panel should propose clearer and tougher rules on how the shares of both bidding and bidding companies should be traded during the period of a takeover.

These could include clearer definitions of "fan clubs"—groups of institutions which buy a company's shares to help it during a takeover in the hope of a return favour some other time. It might also take a tougher line against indemnity agreements whereby merchant banks offer to make good losses suffered by those who buy its clients' shares, and then recoup the cost by charging their clients fat "success fees." If, for practical reasons, these cannot be prevented, then disclosure requirements should be more stringent.

Other ideas that are being bandied about include freezing trading in shares of both bidding and target companies during a takeover, or requiring that shares be held for six months before the owner may vote them. Both measures would discourage short-term tactical share trading during a takeover, though they might also give rise to other abuses and would not prevent the kind of price-ramping alleged in the Guinness case.

However, the Takeover Panel is unlikely to be pressed into early action because that might prejudice the DTI inquiry. Similarly, the Stock Exchange will not be rushed into adopting complicated new rules because of what takeover practitioners still insist is an unusual and isolated incident.

But though these proposals are being put forward as practical steps, people in the City realise that they will appear arcane and inadequate to the rest of the country.

Tougher measures might include raising the status of the Takeover Panel to that of a statutory body with enforcement powers, and giving it a much larger staff to police takeovers. Many people in the City might be willing to accept this as a compromise to prevent the more drastic step of a fully-fledged Securities and Exchange Commission, as proposed by Labour.

Whether the creation of a statutory body would do any more than placate an outraged nation, though, is doubted in the City. For one thing, the Securities and Investments Board which administers the self-regulatory system, already has strong statutory powers to extract information and to prosecute, and it bears a greater resemblance to the SEC than is often supposed. Where it does differ is in the composition of its board, two-thirds of whose members are City people, and only one-third represent the wider interests of society. That balance might be reversed.

At the moment, the Government shows no signs of second thoughts about City regulation. And it is still possible that the affair will blow over with a promise by the City to do better.

Whatever happens, though, the City is in a cowed state and unlikely to chance its arm quickly. "When you have all those endorsements on your licence, you don't even go through an amber light," said one leading takeover practitioner.

THE GUINNESS AFFAIR

Brano Redovic

The city under a cloud

By David Lascelles

A mood of gloom, anxiety and even, in some quarters, despair

'We believe there must be some action quite soon'

THE BATTLE THAT MORGAN GRENFELL CANNOT AFFORD TO LOSE

WHAT DOES the future hold for Morgan Grenfell, the merchant bank caught up in both the Guinness affair and last year's insider trading scandals?

Speculation is rife in the City that the group, once held in awe for its skill and ferocity in takeovers but now weakened by scandal and ebbing morale, could fall prey to takeover itself, possibly by a foreign institution. The senior executive of a leading rival this week gave Morgan only "a 50-50 chance of remaining independent."

But many factors weigh in Morgan's future. It has powerful friends in the form of Deutsche Bank, Germany's largest bank which owns 5 per cent, and Willis Faber, the UK insurance group with 20 per cent, both of whom have reaffirmed their loyalty in the last few days (though for regulatory reasons, Deutsche Bank could not increase its stake). Also, the Bank of England would have some say in the change of ownership of such a key City accepting house.

Morgan is also doing its best to restore its standing. It announced a top-level internal inquiry this week to identify and correct internal failings and try to restore external confidence. The management claims that as far as business is concerned, life continues as before, and deals are still being done.

But is all this enough? Morgan's biggest task is to persuade the outside world that if it was involved in wrongdoing through its relationship with Guinness, this was because individuals were overstepping the mark, and not because it was authorised by top management. An inquiry by Morgan's own directors rather than outsiders, some people have suggested, may not be enough to allay worries given the seriousness of the case. Morgan is also co-operating with the inspectors from the DTI.

Meanwhile, Morgan's own performance is bound to be affected by the scandal, which could hurt profits. With the resignation of Mr Roger Seelig in the Guinness affair, it has lost its star takeover artist and fee-earner. Company clients may also be warier of hiring Morgan to handle their takeover bids, either because they fear a scandal, or because they suspect Morgan might now act too cautiously and lose them the bid.

Morgan is advising BTR in its current takeover bid for Pilkington—a battle which many both inside and outside Morgan view as a key test of its mettle. "We simply cannot lose this one," says a Morgan man.

Morgan's share price, which last autumn sank to a low of 353p compared from 500p at last summer's flotation, has been recovering recently and closed with a gain of 13p at 424p last night. Some of this strength stems from a feeling that Morgan will get on top of its problems, but much of it is also due to speculative buying—by the Japanese according to some reports.

Men and Matters

Miller mixes money with oil

Simon Miller, aged 34, the new chief executive of Floyd Oil Participations, is a young recruit to top management, even by the standards of Britain's youthful oil and gas sector.

After reading law at Cambridge he became a barrister and then joined merchant bank Lazards.

From that point on his career has led him ever further into the world of British onshore and offshore exploration. At Lazards he worked on financing onshore prospects.

After moving to County Bank five years ago he set up an oil department specialising in the financing and restructuring of British oil companies. Floyd was his first client there.

The future pattern for Floyd, he says, is to be primarily an oil company, but with substantial interests (up to half) in coal.

His appointment coincides with Floyd buying from Alan Bond of Australia the British coal mining division of Hampton Gold Mining Areas for an eventual total payment of nearly £6m.

The coal and oil licences of the merged company will share some licence areas in the East Midlands. Miller expects to gain useful geological knowledge for the oil side of the business from shallow drilling for coal.

Snowbound to rule

British Telecom engineers at the Goonhilly Downs satellite tracking station in Cornwall have had more trouble than most NCU members in keeping to their union's overtime ban this week.

Raging blizzards have been trapping engineers at the station for days on end. Staff who went into Goonhilly Downs on Sunday were not relieved for more than 48 hours. And the continuing Arctic weather has consigned their successors to a similar fate. All of which could make it difficult for the engineers to adhere to the NCU's policy of industrial action.

But a local NCU representative assures me that while some of his members at the BT international tracking station have been on site for over two days, they have kept faithfully to an eight-hour working shift. The only exception has been emergency work related to distress calls from ships at sea.

One major problem for the marooned workers has been the lack of food—canteen staff were among those who failed to brave the conditions to get to work. So the peckish technicians took the only step open to them. They broke into the canteen—with the station controller's approval of course.

"If that's the DTI inspector—I'm still stuck in a snowdrift"

First strike

The Neill inquiry's report will land on the desks of insurance brokers and underwriters at Lloyd's of London, next week.

Commissioned last January by the Department of Trade and Industry, it is expected to run to several hundred pages of closely-argued analysis of the market's standards of self-regulation.

In the meantime, Lloyd's seems to be keen to forestall any criticisms by Sir Patrick Neill, the Oxford don leading the inquiry.

Some cynical members of the market have been amused by the arrival through the post of a glossy brochure dated December 1986 and entitled "Lloyd's of London—membership: the issues." Published by the Corporation of Lloyd's, it features a list of questions any prospective member should ask his underwriting agent to ensure he is getting a fair deal.

Since the perennial criticism of Lloyd's is that ordinary underwriting members are not always given all the information they should get, the cynics were not surprised that it should be keen to send the new brochure out this week.

Westlake's leap

For Dr Fred Westlake, the taking by United Technologies, the $15bn US Goliath which embraces names like Pratt and Whitney and Sikorsky, of a 9.9 per cent in First Security, the British industrial minnow of which he is chairman and chief executive, evokes more than hopes of expanded business prospects.

For Westlake, aged 43, the deal means the renewal of close contacts with the US aerospace industry, of which he was once a part.

Had the Apollo programme continued after the second manned moon landing, Westlake would have been one of Britain's first men in space with NASA.

An engineering graduate from Leicester University, he obtained a US government-sponsored scholarship which led him to the Massachusetts Institute of Technology, working on space guidance systems at its Draper Laboratory, and to Milwaukee-based AC Electronics (now part of General Motors), also working on guidance systems for NASA.

Westlake was considered astronaut material by NASA—and was duly enrolled. "I spent a lot of time doing things like jumping out of aeroplanes," he recalls.

He and the rest of the trainee astronauts were brought down to earth with a bump, however, with the subsequent slashing of NASA's budget as the public lost interest in matters lunar. So at 27, "I had to find a real job."

Westlake, who had opted out of joining his family's Brixton, London, fruit and veg business at the age of 16, returned to the UK and worked first for himself, then for BSC Industry, before taking over two years ago at First Security the automotive, fire, and security sensors, manufacturing group.

He sees the United Technologies link as a significant booster for First Security into the giant US market for sensors.

One way ticket

Companies often find their classifications under the FT-Actuaries indices puzzling.

But one can't help feeling a twinge of regret at the transfer of Hodgson Holdings, the USM-quoted funeral director, to the Miscellaneous sector.

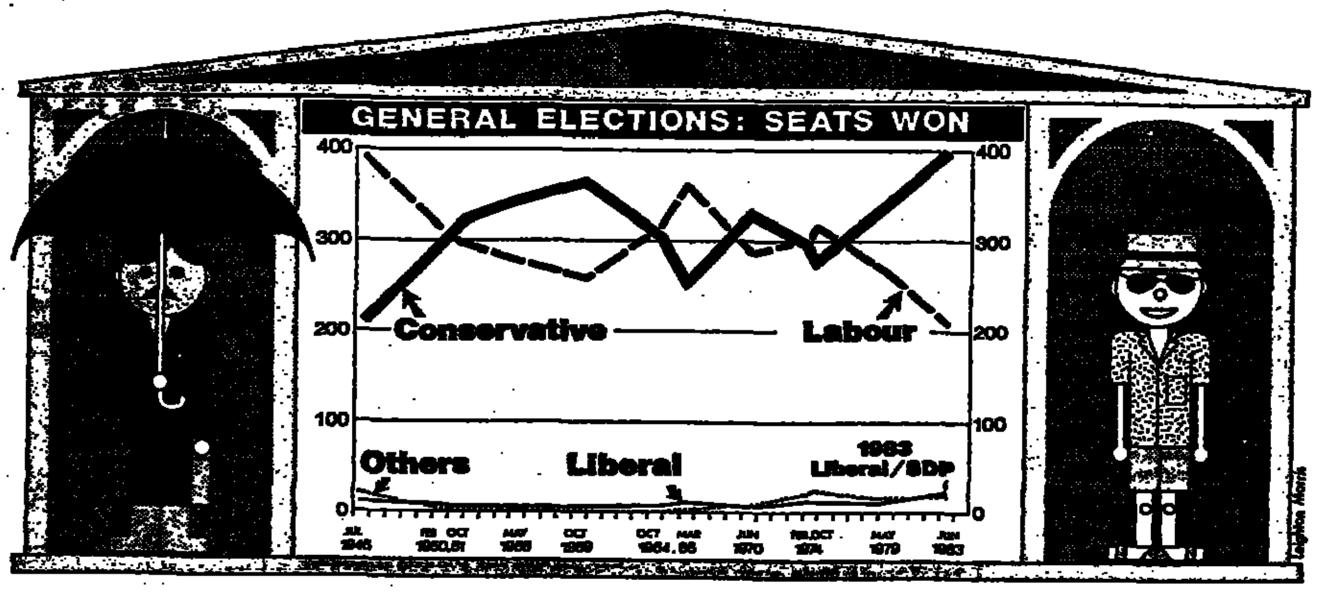
Somehow, its previous classification as a Transport stock seemed so much more appropriate.

Observer

POLITICS TODAY

The case for a fixed term

By Malcolm Rutherford



NOTHING that happens seems to get in the way of the view that the Conservative Party should win the British general election quite comfortably, when it comes. The Guinness scandal and the spell of cold weather have both been taken by the Government in its stride. It looks as if the Tories are more anxious, and more competent, to hound corrupt practices in the City than the opposition parties. And when it came to the extra heating payments for the cold and the old, the Government was ready to shell out within a day or so, junking bureaucratic structures.

The message is confirmed by the opinion polls. The latest Marplan poll in the Guardian yesterday gave the Tories 38 per cent, Labour 36 per cent and the Alliance 23 per cent. Nothing suggests that the Labour Party is about to overtake the Tories by a significant margin, and the timescale is getting rather short.

It is by no means all due to Tory virtue. The fact is that the Conservative Party benefits from a divided opposition. That is how it dominated most of the 1920s and 1930s. The Liberals split, the Labour Party followed suit and the Tories ruled. It has been much the same since the Tory victory in 1979.

Nevertheless, not all commentators take my simple view and it would be, perhaps, wise for prudent punters to consult other sources before reaching their own conclusions. There is a great deal of talk, for instance, about the possibility of a hung Parliament.

Whether or not there is an overall Tory majority next time, however, there is one question which is worth everyone's consideration. It concerns the power of the Prime Minister of the day to go to the country at a time of his or her choosing within the maximum five-year period for a parliament. The rest of this article is about the case for restricting Parliament to a fixed term, and requires a little bit of history.

In the old—very old—days, the duration of a parliament was a matter for the Sovereign. King Charles II kept one going for 17 years. The arguments against such a practice were that a parliament kept in being so long might cease to be representative of the people who had elected it and that a parliament whose duration depended on the wishes or whims of the crown might become too ready to pander to the policy of the Court.

The first big change in the practice came under William III with the Triennial Act in 1694, which restricted the maximum length of a parliament to three years. The King could still dissolve it, and William III was the last monarch to do so on his own responsibility, but he could not prolong it and therefore evade regular elections.

In 1715, the Triennial Act gave way to the Septennial Act which, as its name implies, extended the maximum duration of a parliament to seven years. The latter remained in force until the Parliament Act of 1911 which, while mainly aimed at curbing the powers of the House of Lords, cut back the period to five years except when parliament prolonged itself, as it did in two world wars.

There, on the whole, the matter has rested ever since, though there was an MP called Professor Ramsay Muir who gave evidence to the Select Committee on Procedure in 1931 and argued against the "unsound constitutional doctrine" of the dissolution of parliament by the Prime Minister.

Instead, he said, there should be a fixed-term parliament. It should be prematurely dissolved only if a completely new issue arose in the country which the existing parliament had not been elected to deal with, or if it became absolutely clear that the business of government could not be carried on without a dissolution.

Note an important shift in the argument over the centuries: parliament was originally given a maximum duration in order to abolish the Crown's discretionary power to prolong it indefinitely.

Today the Crown has very little discretionary power or, to be more accurate, it is almost inconceivable that it would seek to use the very considerable powers of the Royal Prerogative still at its disposal. Its role is "to advise, to encourage and to warn."

Discretionary power today lies with the Prime Minister in being able to choose the date of the general election within the five-year period. This doctrine has become built into the British political practice. It ought to be challenged.

It is true that nothing in the doctrine means the Prime Minister of the day will automatically get the timing right. There is nothing, either, that automatically favours the left or the right. Both a Labour and a Conservative Prime Minister have got it spectacularly wrong in recent years. The now Lord Wilson went to the country before he needed to in June 1970, and lost. Mr Edward Heath did the same thing for the Conservatives in February 1974.

Yet, as many people pointed out at the time and is even clearer with hindsight, it was a pretty rash move in each case. Labour had been miles behind in the opinion polls for many months during that Wilson government—in July 1969 the Gallup ratings gave the Tories 55 per cent, Labour 31 per cent. The tide had only just begun to turn when Wilson rushed in.

Mr Heath went in the heat of the moment over the miners' strike and the question of "who governs Britain?" He overlooked the fact that, as lately as December 1973, the Gallup findings had been Tories 36 per cent and Labour 42 per cent and that Labour had been leading throughout that year. It was a mistake to assume that opinion could be turned by a snap election or that the campaign could be confined to a particular issue.

The conclusion I draw from both instances is that Prime Ministers should be deprived of the temptation of going to the country when it is not essential to do so. Wilson and Heath looked opportunistic, and both of them suffered for it. They could hardly have done worse if they had stuck out their terms.

I draw the same conclusion even when the Prime Minister of the day gets the timing right, as Mrs Thatcher did in June 1983. She cashed in because she was persuaded that she would win.

There were two main factors in her victory. One was the divided opposition which still exists. In December 1981, the Gallup ratings had the Tories and Labour each at 23 per cent. The recently-formed Alliance stood at 50 per cent. The other was the Falklands war which changed the polls considerably. Just before it broke out, the Tories were at 31 per cent, Labour at 29 per cent and the Alliance 37 per cent. The figures swung from one month to another to Tories 41 per cent, Labour 28 per cent and the Alliance 29 per cent. The Tory lead went on rising for several more months.

So Mrs Thatcher won, but she did so at a price. Much of the legislative programme that was going through parliament had to be abandoned. The manifesto was hastily and inadequately prepared and the result was that much of the first two years of the second Thatcher administration was wasted. If there had been a single, united opposition, it might never have been allowed to recover.

Thus, whether a snap election is won or lost, it does not seem that the outcome is necessarily good government. Rather, it gives rise to an unseemly scramble and the pieces have to be picked up later.

There is another intense irritation to which the possibility of early elections can give rise: it is the constant speculation about when polling day is going to be. This week one has actually heard "serious" discussions about whether the bad weather means that the election will be sooner rather than later. It cannot help the business of running a government if one eye is always on a moveable calendar. A fixed-term parliament would at least help to concentrate the mind.

There must, of course, be provision for exceptions. Total rigidity would be quite as bad as the present system. Mr Attlee, for instance, was right to go to the country in 1951 because his majority was so small and indeed the 1951 result simply confirmed the trend that had been shown in 1950 by letting the Conservatives in.

Mr Wilson was justified in going to the country in March 1966 because he needed a larger majority in order to govern and got it, though the gambit paid off less well when he tried to do the same thing in October 1974.

Yet it should surely be possible to devise a system under which although fixed-term parliaments are the norm, premature elections can be held if it is not possible for a government to be formed. The West Germans have it and seem to have done very well out of it. The Americans have their own checks and balances by holding elections mid-term. Britain has no real counterpart.

Still, it is not just the foreign examples that should act as a spur. The fact is that the British system is out of date even by its own standards. It was invented to lessen the power of the Crown, a battle that was won long ago. It exists now to enhance the power of the Prime Minister. What it means is that a gamble on a date has been turned into a constitutional principle. What we actually have is a lottery. It is strange that people put up with it so easily.

Lombard

Self-help for the Third World

By Peter Montagnon

DEVELOPING countries have long argued that they get a raw deal out of the free-trade principles enshrined in the General Agreement on Tariffs and Trade. Negotiations on trade concessions under the GATT have traditionally been a bargaining process in which they are condemned to the role of weaker party. However much they want industrial countries to open up their markets to developing country products they suffer because they have little or nothing to offer in return.

A new book published this month—"The Less Developed Countries and the World Trading System"*—seeks to debunk this argument as a red herring. Significantly it has appeared just as a new round of GATT talks gets under way in which debt-ridden developing countries have more at stake than ever before. Significantly also, it is written by an economist from a developing country, Ms Diana Tussie, an official in Argentina's Economy Ministry.

Ms Tussie does not seek to dispute the claim that GATT's procedures are stacked against the developing countries. Instead she argues that this has little to do with the fact that developing nations have failed to share fully in the general expansion of trade that has taken place since the war. Indeed she goes so far as to suggest that all GATT's efforts to liberalise trade have played only a peripheral role in the expansion of international commerce.

Two really potent forces have actually been at work, she says. The first is mobility of capital which has fostered international investment flows, particularly within the industrial world. The second is technological advance funded by this investment which has allowed certain industrial sectors to develop products that compete not on the traditional basis of comparative price advantage but more on product differentiation, style and marketing.

This is a process that has largely passed developing countries by. Lacking both investment and technological resources, they have failed to develop those industries that have been at the forefront of international trade expansion and it is not surprising that over 80 per cent of world trade in manufactures still lies within the industrial world itself.

Ms Tussie points out that liberalisation of trade in manufactured goods has been at its most difficult in sectors producing traditional, standardised products like steel and textiles for which price is the main competitive factor and which tend to dominate the industrial scene in the developing world. Bitter trade disputes are much less common in, say, the motor industry where style and technology are equally, if not more important than price.

The bleak conclusion for developing countries is that, GATT or no GATT, they have become squeezed out of what has become an increasingly exclusive process. Not only are world trade flows most heavily concentrated within industrial countries; they are also at their most dynamic within certain industrial sectors and ultimately within multinational corporations themselves.

According to Ms Tussie, developing countries have only one real hope. This is to foster trade among themselves, something which has been tried before in Latin America with LAFTA (Latin American Free Trade Area) and failed. But LAFTA's failure occurred not least because it was predicated on an old-fashioned idea of exchanging one good for another, for example bicycles for transistor radios. Where the developing world can learn from the experience of the North is in the need to concentrate on trade in those products best suited to thriving international commerce even if they are produced by the same industrial sector. It is this intra-industry trade that has served the North so well.

Implicit in her argument, however, is another but unstated conclusion. If developing countries really want to be better integrated in the world trading system they would do well to shake free of a long-familiar spectre, fear of domination by multinational corporations. A fresh flow of investment by multinationals could bring about just the sort of trading boost they now ought to be seeking.

*The Less Developed Countries and the World Trading System by Diana Tussie. 220 pages. Francis Pinter Publishers, London, price £20.

Letters to the Editor

UK higher education

From Dr P. Marett.

Sir, — The call by the Vice-Chancellor of Salford University (January 7) for an extension to four years of the university honours degree course is timely indeed. With the explosive growth of knowledge in recent years, in all fields (humanities as well as science and technology), the traditional 2½-year degree course is now too short. The Vice-Chancellor's other suggestion, however, that the majority of undergraduate students should be fobbed off with a two-year "general" so-called "degree" is without merit. Such a qualification would have no status at home and would be a laughing-stock abroad. It may be that there is a case for an imaginative sub-degree course for the less able student but the provision of such a course would not be a proper function of the universities and should certainly not be called a degree.

The British university system is among the best in the world. We have achieved this position by rigorous entry standards and intensive, highly-specialised honours courses, which have enabled us to produce high-calibre graduates in a period of study which, compared with nearly every country, is very short. If student numbers are to expand, as the Vice-Chancellor suggests, by 30 per cent, where are we to find all these additional people, unless by poaching from the polytechnics? I suggest that, if expansion is to come (and I am sure it will when financial constraints eventually ease), it will come from a lengthening of the undergraduate course rather than from taking in a markedly higher proportion of the school leaving population.

I hope that the universities will dismiss the idea of a shortened degree course as without merit, but that they will give constructive thought to the introduction, perhaps by slow stages, of a fourth-year of study for all, or most, undergraduates.

(Dr) Paul Marett,
Department of Library and Information Studies,
The University,
Loughborough, Leics.

Investment by trustees

From Mr W. Empson

Sir,—What better example could there be to substantiate Mr J. Boyd's view (January 9) on a pension fund holding shares in the company than that of the collapse of Rolls-Royce some years back. R-R went bust but the pension fund was unscathed because it held no shares in the company, which said a lot for the trustees.

Yes, the Guinness spokesman's statement (December 17) that it is "healthy" and "common practice" for a company's pension fund to hold shares in the company does give cause for some concern. But that's not the first statement from the house of Guinness of that nature.

William T. Empson.
Letheringsett,
Barton Meadow,
Pelynt, Looe, Cornwall.

Taxes and revenue

From Mr D. Franklin

Sir,—In your report (January 8) on the Labour Party's strategy session at Bishop's Stortford, you quote Mr Roy Hattersley, the Shadow Chancellor, as saying that he would introduce a Budget to help the pensioners, the long term unemployed and those receiving child benefit. These would be paid for by higher taxes on the richest 5 per cent.

Since 1979, taxes at the top rate have reduced from 98 per cent to 60 per cent and figures released by the Treasury show that as a result of this tax reduction, the tax share of the top 5 per cent tax earners actually increased from 24 per cent to 26.7 per cent.

Taking this fact into consideration, Mr Hattersley must know that if he were Chancellor and introduced higher taxes for the richest 5 per cent, his Budget would produce less, rather than more revenue.

D. G. Franklin.
121 Kennington Road, SE11.

Lame duck or dead duck?

From the Spokesman, BL Individual Shareholders Society

Sir,—The failure of the Rover Group, alias BL, in 1986 is not adequately reflected in the SMMT figures showing its slide from 17.9 per cent to 15.8 per cent of the UK car market. Import penetration is strongly affected by the level of the pound, and the fall in this very fully accounts for the decrease in the share taken by overseas manufacturers. Accordingly the best indicator is that BL/Rover met only 36 per cent of the demand for cars by British firms, a slump of a sixth from the 43 per cent in 1985. Worse, even these miserable results deteriorated across the year into a horrific last quarter that should instead have seen an improvement from the new Rovers.

This was an odd time to grant pay rises of 22 per cent, over two years but with 17 per cent accessible immediately. BL/Rover nonetheless demonstrated its confidence in the continuing support of the taxpayer, who has already given it nearly £5bn directly and through guaranteeing "loans" that cannot possibly be repaid normally—£7bn in today's money, £110,000 for every UK job "saved." As losses accumulated at £1m every working day, plus BL's habitual "extraordinary items" of £100m or thereabouts, Mr Day, its chairman, calmly took some nine months to produce his corporate plan.

It is vital that this be properly considered—which is impossible in the run-up to an election. Temporary support should be granted, until a fresh Parliament takes office, and an independent inquiry should be held in the intervening period.

Noel Falconer.
223, Bramhall Moor Lane,
Hazel Grove,
Stockport.

Commission and selling

From the Deputy Director, Consumers' Association.

Sir,—Mr Hayes (January 10), is not revealing the whole picture when he says with some pride that commission paid on unit trusts has not been increased since 1974. It is true that the rate has not increased but does he want intermediaries to get a double benefit; inflation's impact on the amount of money put into unit trusts and life assurance and increases in commission rates themselves? Life assurance intermediaries were, indeed, fortunate to see this happen when the LOA/ASLO agreement was abandoned in 1983 and saw an increase in commission rates of some 15 per cent. Consumers must count their blessings that this did not occur in the unit trust industry and must surely resist any move to harmonise commission rates upwards between the two classes of product.

As to company representatives, the Life Assurance and Unit Trust Regulatory Authority (LAUTRO) suggested in its proposals that their "remuneration is likely to follow a pattern similar to the scheduled commission rates and therefore a degree of rationalisation will probably be introduced in this field." Our concern was that, taking differential costs for different types of intermediary into account, tied agents should not end up with a higher level of remuneration and a different commission structure compared with independent intermediaries. Changes in the shape of the commission structure, e.g. in reducing front-end loading, would we hope lead to more careful selling of products, whether by an independent intermediary or a company representative.

Mr Hayes appears to challenge Consumers' Association for commenting on the complex area of life assurance and unit trust selling. It is the very complexity of the topic which prompts our members to urge us to do this. The experience we've accumulated by investigating and assessing money issues for over 20 years, advised in turn by a distinguished band of experts, is precisely what leads us to make representations on behalf of consumers—who after all pay for the service he describes.

Rosemary McRobert.
14, Buckingham Street, W.C.2.

Interference by Government?

From Mr J. Tunnicliffe

Sir,—The last sentence of your leading article (January 9) suggests that the Government should not tell people how to conduct their private lives. I too am opposed by temperament to Government interference in my private life. For example I do not like to be told to wear a seat-belt or a crash-helmet.

I am persuaded however that Government interference is a reasonable price for Government help when as a result of my folly or bad luck I need and accept medical treatment or welfare benefits supplied by the Government.

If it was possible for one to contract out of treatment and benefits I ought to be permitted not to wear a seat-belt or a crash-helmet. If it was possible for Aids victims to contract out of treatment and benefits they might consider their private lives to be their own exclusive business.

Faced, however, with the prospect of millions of pounds' worth of treatment and benefits for Aids victims being required (and indeed demanded) the Government has in my view not only the right but the duty to seek to influence people's private lives away from the danger of infection.

J. D. Tunnicliffe.
100 High Street,
Great Abington, Cambridge.

FINANCIAL TIMES

Friday January 16 1987

FRENCH LEADER CALLS FOR GREATER CO-ORDINATION BETWEEN EUROPE AND US

Mitterrand plea on defence links

BY ROBERT MAUTHNER, DIPLOMATIC CORRESPONDENT, IN LONDON

MR FRANCOIS MITTERRAND, the French President, yesterday called for greater co-ordination of defence policies between Western European countries and between the US and its European allies.

Mr Mitterrand was speaking on Europe's future at an extraordinary meeting of the Royal Institute of International Affairs at Chatham House in London at the request of Mr James Callaghan, former British Labour Prime Minister.

Mr Callaghan, who chaired the meeting, said he had written to Mr Mitterrand to ask him to give his views on Europe's role and future following concern over US President Ronald Reagan's failure to take European interests into account at his summit meeting with Mr Mikhail Gorbachev, the Soviet leader, in Reykjavik last October.

Mr Mitterrand's decision to come to London solely to address a non-official body was seen as an unusual gesture for a head of state.

On defence, he said the creation of a European defence community was not feasible as long as the European Community failed to develop a stronger institutional structure. However, it remained a desirable long-term objective.

What was needed was greater co-ordination of the nuclear arms policies of Britain and France. This needed to be achieved without undermining their independence or the conventional arms policies of all the European members of the Atlantic alliance.

The French President said President Reagan had given him a written undertaking that the European members of the alliance would in future be consulted on the US negotiating stance in arms control talks with the Soviet Union.

"I am in favour of a much greater exchange of views and examination of strategic relations," he said.

This did not mean, however, that France wanted to participate in the US-Soviet negotiations at present.

The disparity between the number of US and Soviet nuclear weapons on the one hand and those of France and Britain on the other was too great for French and British participation to be useful or desirable. Echoing the British Government's view Mr Mitterrand said the two superpowers would have to substantially reduce their own nuclear weapons before Britain and France could participate in the negotiations.

Turning to the problems facing the European Community, Mr Mitterrand said that it was going through "a crisis of growth."

A large number of technical decisions had been taken – notably to complete the Community's internal market – which would never be implemented unless there was a stronger political will to do so.

A real internal market could come into being by 1991 unless it included a harmonisation of the social policies and legislation of the member countries.

Mr Mitterrand also called for a fundamental reassessment of the aims of the common agricultural policy, stressing that there was no point in arguing about how to fund a policy without being clear about the kind of rural organisation the Community really wanted. "We need a big think-tank discussion of this problem, embracing not only officials but farmers' organisations and other experts."

Priorities for the Community included the harmonisation of social and employment policies, greater technological and scientific co-operation, collaboration on transport and communications systems, joint health and medical research and policies, co-operation in the fight against terrorism

Finally, Mr Mitterrand made a plea for closer links between the existing 12-nation European Community and the East European states. While the present members of the Community "spoke the same language" the East European countries were also part of the same cultural tradition.

"Europe is not Europe as long as there is no understanding between its two parts," Mr Mitterrand said.

Chirac calls for national solidarity

Continued from Page 1

Cabinet reshuffle including the nomination of a new Research and Higher Education Minister to replace Mr Alain Devaquet, who resigned last month during the French student crisis.

Mr Denis Baudouin, the Prime Minister's official spokesman, confirmed yesterday that the minor reshuffle would take place soon. Apart from appointing a new Research and Higher Education Minster, Mr Chirac is also expected to name a Secretary of State for Consumption.

This new nomination of a consumption minister reflects the Government's pre-occupation of renewed inflationary pressures this year, although it has succeeded in meeting its target of a consumer price inflation rate of 2.1 per cent –2.2 per cent last year.

According to provisional figures released last night by Insee, the national statistics institute, consumer prices rose by between 0.1 per cent –0.2 per cent last month giving France an annual consumer price inflation rate of between 2.1 per cent – 2.2 per cent last year.

French industrial and scientific circles have been pressing the Government to appoint a new research minister. Mr Pierre Aigrain, a former research minister now scientific adviser of the Thomson electronics and defence group, said that French industries and research institutes were becoming increasingly worried by the absence of a research minister

Mr Aigrain said French high technology industries and research institutes were also worried by the current deadlock over the financing of the second stage of the European Community's Esprit programme.

US seeks to block Hoechst bid for Celanese

By James Buchan in New York

THE FEDERAL Trade Commission, the Washington organisation which oversees industrial competition, is seeking a preliminary injunction to block the $2.85bn takeover of Celanese Corporation, the US chemicals group, by Hoechst, one of the big three West German chemical companies.

The commission said yesterday that it would begin court proceedings to halt the $245-a-share tender offer for Celanese by American Hoechst, the US subsidiary of the West German company.

The commission said the combinad group would be the largest producer in the US of polyester fibres used in cloth, outstripping the present market leader, Du Pont.

The two companies have worked closely together since the 1950s and the takeover would form the largest chemical concern in the world.

American Hoechst said yesterday that it would extend its tender offer until January 28 to allow time for discussions with the commission.

The offer was approved by Celanese and was due to expire at midnight last night. The company said about 77 per cent of Celanese's common shares outstanding had been tendered.

Analysts suggested that, while the commission was taking a tough line on the anti-trust implications of the merger, there was scope for asset disposals in the fibres business to satisfy the commission.

Celanese's share price remained short of the $245 offer, but rose $½ to $241½ in early trading yesterday.

American Hoechst, the fourth largest US producer of synthetic fibres, earned $5.7m on $1.7bn in revenue in 1985. Celanese, the second largest US producer, reported record net income of $156m on sales of $2.2bn in the first nine months of last year.

Hoechst said yesterday it remained optimistic that its takeover of Celanese would go through, despite the decision of the Federal Trade Commission.

The company said it intended to hold talks with the FTC to resolve the matter. It had no idea why the FTC was taking this action.

Hoechst said the extension of the offer and the opening of further talks with the FTC were aimed at forestalling the taking out of an injunction. The company said it had furnished the FTC with all the material requested.

THE LEX COLUMN

BTR probes for splinters

The red meat of Pilkington's profit forecast – and perhaps of BTR's increased offer – will not be seen until later today. Yesterday's Parliamentary brawlings about the non-referral of the bid to the Monopolies Commission provided a theatrical background that few other threatened companies could have drawn upon, even in days when takeovers are viewed with such general suspicion. Although Pilkington has the political initiative, it was not clear whether yesterday's renewed support for the shares – up 54p in two days – amounted to a vote for its independence, or a demand for something over £7 a share, cash down.

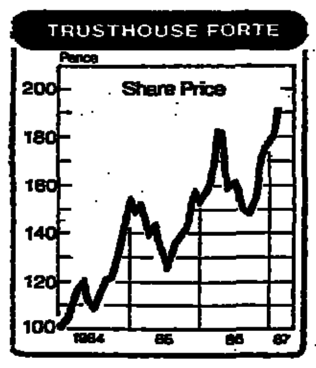
Valuedale/Simon

Objections to Valuedale's original bid for Simon Engineering had two main planks. The first, that the structure of the bid would so fetter Simon's balance sheet as to risk its business while over-rewarding the new management and its backers, has been only partially answered by yesterday's higher offer. Valuedale has shuffled the pack, but the sheer arithmetic of a buy-in makes it virtually impossible to increase the total offer except by the amount that the stock market has risen. Simon shareholders have been offered more, only by dint of the reduction in the outrageousness of the bidders' conversion rights.

The substitution of Morgan Guaranty's loan of £90m for Citibank's £100m, the reduction in dilution from 38 to 15 per cent, and the market's rise, means Valuedale shares can now theoretically be valued at 125p not 100p. That valuation must contain a large dollop of anticipation of Mr Ling's success, for 1986 forecast earnings, adjusted for the proposed share capital and likely interest charge, would certainly imply a multiple well above Simon's merits.

While the debt has been reduced by £10m, the preference shares would now total £48.5m putting a substantial charge prior to attributable earnings in the p and l account. Meanwhile the balance sheet still looks horrifically geared to those investment and credit analysts who knock goodwill off net tangible assets in their calculations. This is old-fashioned to Mr Ling and his colleagues with MBAs from the BTR Business School who can reasonably enough claim that interest cover would be comfortable even before the supposed magic is worked on profits.

That is the other bone of contention, Simon's record is not exciting, but neither is Mr Ling's for all the fuss made about Haden. Simon has some new management already; should shareholders pay for more? Perhaps as an outsider Mr Ling could provide a fresher approach, but the burden of proof is with the bidders not Simon. If shareholders could be sure of taking 325p in cash or loan notes, they might consider it a fair price at 11 times 1986 earnings, and maybe 10 times 1987. But a paper ingredient which could not be put to the test of market valuation until after Mr Ling took office looks too much of a risk.



Trusthouse Forte

After the half-time setback, Trusthouse Forte's modest full year improvement was greeted with almost audible relief. On the UK hotels side, the American tourist market is almost back on track, and the opportunity to recoup the refurbishment outlay through higher room rates is starting to become reality. The continental European front looks likely to remain glum for some while, but in the US, at least, management changes and weeding-out of less profitable outlets are finally having an effect.

But if hotels – barring a bomb at Heathrow – are set to at least edge ahead on this year's performance, it is in catering that THF is really gaining momentum. The Monopolies Commission enquiry into acquisition of the former Imps businesses seems to be cracking on at a good pace, and a decision over the Happy Eater chain could emerge next month.

A green light would certainly help the future planned expansion of outlets, but there is plenty of growth from existing business like contract caterers Gardner Merchant, Little Chef and motorway service stations.

Higher interest charges will probably blot this year's figures, given that the current refurbishment programme has another two years to run, but a pre-tax figure around the £160m-mark looks within reach. Assuming that THF gets away with a similarly low tax charge, that puts the shares – up 10p at 190p – at 13 times 1987 earnings. A reasonable enough rating – though the City still takes some convincing that the shares should discount Rocco Forte matching the long-term achievements of his father.

News Corp/HWT

The great Australian media battle is over. While government, monopoly watchdogs and a babble of learned counsel look on, Rupert Murdoch has moved to within inches of obtaining control of both Herald & Weekly Times and the Queensland Press. Minus a few small disposals, News Corp will soon own three quarters of the country's printed media and have the only national coverage.

Inevitably, the departure of Bell and the apparently unstoppable News Corp victory leaves John Fairfax somewhat out on a limb as Mr Murdoch's only competitor. Unusually for the recipient of a consolation prize, Mr Holmes à Court is paying News Corp A$460m (more than enough to cover the A$3 a share extra needed to win HWT). The flurry of dealings in BHP in London yesterday, up 21 cents to A$9.42, may have been purely speculative but it serves as a timely reminder of Bell's great cause.

As the DTI starts to move in on the more tangled aspects of UK takeover practice, the opaque manoeuvres of the Murdoch companies must be turning UK conglomerateurs green with envy. The bidding for Queensland is routed through a family company that is run by the magnate's sister; and excessive beneficial holdings that might result from control of HWT are being temporarily avoided by utilising a one week old company in which 85 per cent of the shares are held by three off-the-shelf good men and true, one of them a member of the Australian Broadcasting Commission.

BTR bid for Pilkington under fire

Continued from Page 1

gained 20p to close at 651p in a flurry of late trading on Wednesday afternoon amid stock market rumours anticipating yesterday's green light for the bid. It rose a further 34p yesterday to close at 685p.

Neither BTR nor Pilkington were informed of the Government's decision until yesterday morning. Only a few weeks ago the DTI launched an inquiry into the possible leaks of price sensitive information about Monopolies Commission references from civil servants to City of London share dealers. There are suggestions that this might lead to charges being laid against a government employee.

The Stock Exchange said yesterday that "we will look at the Pilkington case as we would any other situation where there has been a suspicious movement."

In the House of Commons, Mr Robin Cook, the opposition Labour Party's Trade Spokesman, accused Mr Channon of standing aside to let a predator pounce and said the Government had not yet succeeded in stopping the leaks from the DTI. Mr Channon said he had no evidence of that.

In reply to questions, Mr Channon stressed that his announcement in no way prejudged the result of any decision of Pilkington shareholders and said he was sure that they were best placed to judge the effect of the proposed takeover on Pilkington's management philosophy and commercial direction.

Mr Antony Pilkington, chairman of the glass makers said he was pleased Mr Channon agreed about the importance of its philosophy and direction. Sir Owen Green, chairman of BTR, said the Government had given careful consideration to the issues which had been raised by Pilkington and its supporters with much emotion as being in the public interest. "The obvious conclusion can be drawn from the decision to allow BTR to proceed," he said.

The normal takeover battle timetable, which was frozen because of the unusual delay in the Commission's verdict, will now resume. The contest could run until February 7.

Murdoch close to HWT victory after deal with Holmes à Court

BY OUR SYDNEY AND FINANCIAL STAFF

MR RUPERT MURDOCH, the Australian-born media magnate, yesterday moved close to success in his A$2.3bn (US$1.48bn) takeover offer for Herald and Weekly Times (HWT), the Melbourne-based media group, after reaching a deal with Mr Robert Holmes à Court.

Mr Holmes à Court, the Perth-based entrepreneur, who had been his chief rival in the bid battle launched just before Christmas, is to end his pursuit of HWT, by withdrawing his offer and selling his stake to Mr Murdoch's companies.

In return, the two men have agreed that Mr Murdoch, if he succeeds in acquiring HWT, would sell off two of the target group's key businesses – a Melbourne television station and Perth newspaper titles under The West Australian banner – to Mr Holmes à Court for A$460m.

In addition last night, he won the acquiescence of the board at Queensland Press, HWT's most important associate, to a parallel offer from his News Corporation valuing the Brisbane company, 48 per cent owned by HWT, at A$1.05bn.

This takes his stake in HWT well above 40 per cent – with Queensland Press yielding its 24 per cent cross-holding and Mr Holmes à Court his 3 per cent, to add to an existing News Corporation entitlement which was boosted by market purchases on Wednesday to 16.14 per cent.

The two deals together come as a particular blow for John Fairfax, publisher of the Sydney Morning Herald and Melbourne Age. It had intervened in the contest in an attempt to ensure that HWT remained independent as one of three main forces in the Australian media alongside it self and Mr Murdoch's News Corporation.

Thatcher stands by City self-regulation

BY PETER RIDDELL, POLITICAL EDITOR, IN LONDON

THE UK Government intends to persevere with the present system of voluntary self-regulation of City of London's financial markets and believes it is too soon to consider moving to a full statutory system, Mrs Margaret Thatcher, the Prime Minister, stressed in the House of Commons yesterday, in her first recent public comment on the latest City developments.

The increased political profile of the City was highlighted by a series of exchanges between Mrs Thatcher and Mr Neil Kinnock, the Labour leader, during Prime Minister's questions.

This was followed by an emergency question on the Guinness affair to Mr Michael Howard, the Under-Secretary for Corporate and Consumer Affairs, who stressed that there was "no question whatever of keeping anything under wraps. If anything needs investigating, it will be investigated fully, properly, thoroughly and effectively."

He said that "the inspectors appointed to look into the affairs of Guinness already have wide terms of reference which enabled them to investigate any matter concerning Guinness and to require any persons, including its corporate advisers, whom they consider to have relevant information to give evidence."

There is general support on the Tory benches for the Government's line on Guinness, though several MPs are concerned that recent City scandals will lead eventually to statutory regulation. Sir Peter Tapsell, a stockbroker and senior Tory back bencher, argued yesterday that growing complexities in international financial markets meant "we should increasingly look towards a statutory body to handle these matters."

In reply to these points and to a call from Mr Kinnock for a statutory body with powers to investigate and prosecute, the Prime Minister said it was "far too early to go from the present voluntary self-regulation to conclude that we should go to a full statutory system." She said the Government had appointed inspectors "very quickly."

Ministers believe that nothing has happened in the City to justify a change in the system envisaged in last year's Financial Services Act. The Government wants to see how this develops before considering any modification.

Pan Am stocks surge on AMR merger rumour

BY ANATOLE KALETSKY IN NEW YORK

PAN AM, the US airline, and AMR, parent company of American Airlines, refused to comment yesterday on Wall Street rumours that their chairmen would be meeting today in New York to settle the terms for a merger.

However, Pan Am's stock price rose sharply yesterday by $1¼, or 24 per cent, to $5¾ as market analysts gave the story credence. The two companies have recently drawn closer together through joint marketing arrangements as Pan Am's fortunes have continued to fade.

A merger would create the largest domestic and international air carrier in the US.

A major acquisition by American, the most profitable and well-capitalised company in the US airline industry, has been considered distinctly possible since the wave of mergers and consolidations which has transformed the US aviation business began over the last two years.

Pan Am, which has consistently reported losses since the beginning of the decade, has been an obvious merger partner, especially after an announcement last June that it was integrating its reservation system and frequent flyer programme with that of American.

As part of this agreement, Pan Am granted American a right of first negotiation in the event of any major sale of Pan Am assets or shares. However, despite the attractions of a merger, which would complement American's powerful domestic position with a large international network, there remained scepticism on Wall Street.

Mr Robert Crandall, American's chairman, has said repeatedly that he did not wish to expand his business by acquisition because of the labour problems this frequently entailed.

American has been one of few US airlines to have avoided major industrial disruption in the last few years, while Pan Am has had a history of poor morale and labour turmoil. Mr Crandall has also made a virtue of his financial conservatism, and might be reluctant to take on the debts required to finance a Pan Am purchase, which would cost over $800m at Pan Am's current share price.

In addition, Pan Am would bring with it debts of over $800m.

World Weather

Readings at mid-day yesterday
C-Cloudy D-Drizzle F-Fair Fg-Fog H-Hail R-Rain S-Sun Sl-Sleet Sn-Snow T-Thunder

Swiss bank given illegal guarantees

Continued from Page 1

press conference in Zurich this afternoon.

Dr Fuerer, who was originally recruited to the Guinness board by Mr Saunders, was asked by a meeting of the Guinness board on Wednesday, which he was dissuaded from attending, to resign his position. He believes, that so doing would be to admit he was guilty of an offence. He says that he merely introduced Mr Saunders and Mr Roux to some of the bank's management, and that he was out of the country between April 12 and 26, when the illicit share purchases were made, although he was informed of them later on his return.

However, Dr Fuerer yesterday reached an agreement with Sir Norman Macfarlane, the new chairman of Guinness, by which he will resign his position, provided the board issues a statement saying that he is not suspected of any complicity in the illegal share purchases.

In a further development yesterday, it emerged that Guinness has sold for a nominal sum its lucrative Dewar's White Label brand of whisky to its US distributor Schenley Industries. The assignment of the trade mark was recorded by the US authorities on November 14 last year, shortly before the Department of Trade and Industry launched its inquiry into the company.

During the final stages of the takeover battle in April, Schenley, which is owned by Mr Meshulam Riklis, spent about £60m buying more than 5 per cent of the shares of Guinness, which helped boost the share price.

The company said last night that the ownership of the brand, which was transferred for legal reasons, would revert to Guinness if and when the distributorship arrangement with Schenley was terminated. It was, however, unable to give details as to the circumstances in which the arrangement could be terminated and whether Schenley's possession of the brand gave it additional leverage.

SECTION II – COMPANIES AND MARKETS
FINANCIAL TIMES
Friday January 16 1987

Fermenta expelled from Swedish Stock Exchange

BY KEVIN DONE, NORDIC EDITOR, IN STOCKHOLM

THE BOARD of the Stockholm Stock Exchange last night voted unanimously to expel Fermenta, the deeply troubled Swedish antibiotics and animal health company, from the stock exchange, the harshest disciplinary sanction it can impose.

Expulsion is virtually unprecedented and has only happened once before in recent history: Kinnevik and Fagersta, controlled by Mr Jan Stenbeck, a controversial Swedish financier, were de-listed in 1983.

The expulsion of Fermenta is the latest blow to a company that has been surrounded by turmoil for the past year and which only narrowly escaped being de-listed on two previous occasions in 1986.

The entire board resigned at the end of December and the company is now under police investigation for suspected accounting crimes.

Fermenta's own external auditors have discovered a series of grave irregularities in the company's accounts, which have virtually wiped out the company's profits for 1986.

At the end of December the group announced that it had been forced to write down its forecast profits for last year from SKr 700m ($106m) to only SKr 40m. At the same time, extrordinary gains forecast to be more than SKr 800m were cut to only SKR 310m. The company faces outstanding financial risks of at least SKR 215m including a claim of SKR 133 on Mr Refaat El-Sayed, the ousted former chief executive and main shareholder.

The stock exchange will issue its detailed findings against Fermenta today. The expulsion follows a detailed study of Fermenta's affairs by its own auditors.

The expulsion will take effect on Monday, and trading in Fermenta shares will remain suspended until then.

Dealing in Fermenta shares will now be taken up in the unofficial market in Stockholm, which is not covered by the tough regulations for listed companies. There are no rules in Stockholm forbidding licensed brokers from dealing in the shares of a de-listed company.

The expulsion will be a further blow to Fermenta's battered reputation, however, particularly in foreign capital markets. Mr Sune Dahlberg, Fermenta's new chief executive, and Mr Kjell Brandstrom, the new chairman, and managing director of Industrivarden, the investment company which is now the main shareholders in Fermenta, were in Milan yesterday to meet the group's foreign banks in a bid to bolster confidence in Fermanta's future.

Similar meetings have already been held with bankers in Stockholm and in the US.

Newell makes renewed bid for Anchor Hocking

BY JAMES BUCHAN IN NEW YORK

ANCHOR HOCKING, the Ohio glassware and packaging manufacturer, has received a second takeover offer from Newell, the acquisitive household goods maker based in Freeport, Illinois.

The offer is complex and conditional, but Anchor Hocking said it believed it to be lower than the offer of $34 a share, or about $358m, which Anchor brusquely rejected in November.

Anchor said late on Wednesday that it had received two letters on a possible merger with Newell, which holds about 14 per cent of Anchor's stock. The letters offer a variety of cash and securities amounting to $32 a share face value, with a number of conditions relating to taxation and Anchor's profitability.

Mr Ray Topper, hief executive of Anchor Hocking, said: "The two letters making this new proposal are confusing but the proposal evidently is less than the amount of another highly conditional offer, rejected by the Anchor Hocking board."

Anchor, which has been hurt by a poor glassware market, is expected to report net income for 1986 before special charges well down from the $14.1m earned in 1985 on sales of $720m. Newell reported 1985 earnings of $18.9m on revenues of $350m.

Time to take $63m charge for staff cuts

By Our Financial Staff

TIME INC, the US publishing group, has announced it will take a $63m pre-tax writedown in the fourth quarter to cover the estimated costs of staff reductions during the period.

The company said the write-down was expected to reduce its fourth-quarter earnings by 56 cents a share.

The company did not disclose the number of jobs it had eliminated during the quarter. However, it said it planned to make further job cuts during the first half of 1987.

Time Inc's third-quarter net income was boosted to $252m compared with $44m a year earlier following capital gains totalling $852m.

Mr Larry Tisch

Financier takes top CBS post

By James Buchan in New York

MR LARRY TISCH, the New York financier, has consolidated his grip on CBS by taking over formally as president and chief executive of the broadcasting and recording concern.

CBS said that Mr Tisch, 63, who is the largest stockholder in CBS with 24.9 per cent, had proposed himself and been unanimously accepted as chief executive by the board. Together with Mr William Paley, 85, Mr Tisch was instrumental in removing Mr Thomas Wyman in a boardroom coup in September and had acted as interim chief executive since then. Mr Paley, who holds about 7 per cent of the company, returns as chairman.

Although the price fell sharply in September in the belief that the Paley/Tisch shareholding effectively quelled the prospect of takeover, the market has been deeply impressed by Mr Tisch's short period in control after a long series of reverses at CBS.

Earnings are expected to be sharply down this year even from the depressed level of $202.8m from continuing operations in 1985, advertising revenue is weak and the once proud organisation has lost its dominance of prime-time television.

Intel losses continue despite rise in orders

BY OUR FINANCIAL STAFF

INTEL, the Silicon Valley semiconductor manufacturer, has reported its sixth consecutive quarterly loss, but said fourth-quarter orders were the highest since the third quarter of 1984.

The deficit in the last quarter of 1986 was $16m, or 14 cents a share, up from a loss of $15m, or 13 cents, a year earlier, but down sharply from the $114m third-quarter deficit. However, this included a $60m charge for restructuring costs connected with phasing out of plants in Barbados and Puerto Rico, and the company's withdrawal from the bubble memory market.

For the year, Intel's loss emerged at $173m, or $1.42 a share, against profits of $2m, or 1 cent, in 1985. Revenues fell 7 per cent from $1.4bn to $1.3bn, but rose 12 per cent in the final quarter from $318m to $356m.

Dr Gordon E. Moore, chairman and chief executive, said Intel's fourth-quarter orders increased significantly from the previous quarter. "The greatest strength was in micro-computer components such as the 80286 and 80386 microprocessors," he said. "But orders for memory components and system-level products also increased."

On prices, Dr Moore said Intel had begun to see some modest improvement in Eproms, a commodity memory component that has been under severe price pressure.

"We have an excellent product line, and as a result of restructuring we have improved productivity. Assuming improved industry fundamentals, we expect to do considerably better in 1987."

First Bank System posts record

BY WILLIAM HALL IN NEW YORK

FIRST BANK System, a medium-sized regional US bank based in Minneapolis, yesterday reported a 21.7 per cent rise in 1986 net income to $202.9m and said that it had boosted its return on equity to 16 per cent – the highest in the company's history.

The group was the largest of several medium-sized US banks which yesterday reported double digit earnings increases. NBD Bancorp increased its 1986 net income by 23.5 per cent to $145.8m or $3.87 a share. The Bank of New York Company increased its full year net income by 19.2 per cent to $155.2m or $4.54 per fully diluted share.

By contrast, First Wachovia, the fast growing regional bank based in North Carolina, reported a slightly lower rate for 1986, increasing its net income by 8.6 per cent to $193.8m or $3.42 per fully diluted share.

While First Wachovia's earnings growth in 1986 has lagged that of some of its regional rivals, the company noted that over the past five years its net income per primary share has grown at a compound annual rate of 16.7 per cent and returns have averaged 1.09 per cent on assets and 17.94 per cent on shareholders equity.

● Continental Illinois, one of the two biggest banks in the US midwest with First Chicago, underlined its steady recovery from earlier problems by reporting sharply higher 1986 profits.

Continental Illinois's full-year earnings rose 9.8 per cent to $165.2m, or 60 cents a share, and the group's non-performing loans fell $201m to $634m, or 3.07 per cent of total loans, at the end of 1986.

In the fourth quarter, net income rose from $38.1m or 13 cents a share, to $43.5m, or 16 cents, fully diluted.

Rooney Pace closes broking unit

BY WILLIAM HALL IN NEW YORK

ROONEY PACE, a small Wall Street brokerage firm which has been severely censured by the authorities for defrauding its customers, is ceasing stock brokerage operations and has hired a New York law firm to handle the liquidation of its brokerage activities.

The firm, which went public in October 1983 at $8 a share, has been dogged by adverse publicity in recent years and has frequently clashed with both the New York Stock Exchange and the US Securities & Exchange Commission (SEC). In turn, the US authorities have also been criticised for not acting more swiftly to curb its flagrant abuses of US securities laws which date back to 1981.

Founded by Mr Pat Rooney, aged 46, and Mr Randy Pace, aged 41, the company grew rapidly during the early 1980s

Quaker Oats gains from sale of retailers

QUAKER OATS, the US food group, is to report an after-tax gain of $55.8m, or 71 cents a share, for its second quarter ended December 31 1986, from the sale of its three speciality retailing businesses.

The company completed the sales of its three speciality retailing businesses – Jos A Bank Clothiers, Brookstone and Eyelab – for $230m. Their combined sales of $216.8m in fiscal 1986 represented six per cent of Quaker's revenues.

Separately, the company said it planned to close its pet foods division manufacturing plant in Rockford, Illinois, resulting in a non-recurring pre-tax charge to second-quarter operating income of $20.9m, or 14 cents a share after-tax.

Canadian Tire bid

THE Ontario Securities Commission has blocked the sale of voting control of Canadian Tire by three members of the Billes family of Toronto to CIC Dealer Holdings, the merchandising group's dealer organisation.

The Commission found that the dealers' bid for Canadian Tire voting shares had been structured "in concert with the Billes in their capacity as controlling shareholders... for the purpose of circumventing" legal takeover bid protection for the class A non-voting shareholders.

SA group profits

VOGELSTRUISBULT Metal Holdings, the Gold Fields group's South African base metals investment company, reports a reduced net profit for 1986 of R7.97m ($1.2m), or 43 cents a share, compared with R9.63m in 1985. The dividend total is maintained at 30 cents with an unchanged final of 20 cents.

The group's New Wits, largely a gold mining investment company, has increased earnings for the half-year to December 31 to R8.29m, or 71 cents a share.

INTERNATIONAL COMPANIES and FINANCE

US books move by Dutch retailer

By Laura Raun in Amsterdam

VENDEX INTERNATIONAL, the Netherlands' leading retailing group, and Barnes & Noble of the US have bought jointly the B. Dalton bookstore chain in a move which will create one of the biggest book sellers in the world.

Barnes & Noble, a US bookstore chain which Vendex half owns, together with B. Dalton, will have about 820 outlets and $790m in annual sales. Both book sellers can boast of wide familiarity with the US.

Mr H. M. Franken, a director of Vendex, would not disclose the price at which Dalton was acquired from Dayton Hudson of the US. In 1985 Dalton had turnover of $582m and about 800 shops in 48 states.

Vendex, formerly known as Vroom & Dreesmann, has raised its stake in Barnes & Noble to 50 per cent from 30 per cent through the purchase, while that of Mr Leonard Riggio, an American businessman, has fallen to 50 per cent from 68 per cent. Barnes & Noble's university bookstore chain has been spun off into an independent concern in which Vendex will have a 30 per cent shareholding.

In a separate deal Vendex recently took a 30 per cent stake in Missouri Book Services, a US chain of second-hand academic bookstores. Both the university bookstore chain and Missouri are leaders in the US market.

For Vendex the takeover continues its growing expansion abroad in recent years, especially in the US where stakes have been taken in Barnes & Noble, Dillards and Cole National.

In the Netherlands Vendex's retailing interests are household names such as V & D, a department store chain, Bijenkorf (upmarket stores in which a minority stake is held) and Claudia Strater, a chain of boutiques. The closely held company also has moved aggressively into business services.

Mr Anton Dreesmann, chairman, has said he would take the company public no sooner than next year and probably in 1989 or 1990. With turnover of Fl 8.7bn and profits of Fl 207m ($100m) in 1985-86, Vendex is the eighth largest company in the Netherlands.

Vendex, which is based in Amsterdam, initially bought its holding in Barnes & Noble in 1984. Before the Dalton purchase Barnes & Noble was the third largest book retailer in the US behind Waldenbooks and Dalton in first and second places.

Swiss bond issue

THE Council of Europe is to raise funds on the Swiss capital market through the issue of a SFr 150m bond. The 10-year issue will carry a coupon of 4¼ per cent and is to be priced at par. Gotthard Bank, the lead manager, said the bonds go on sale from January 30.

Paribas

In yesterday's article on Paribas the photograph shown was not of Mr Michael Francois-Poncet, the merchant banking group's chairman, but Mr Jean Francois-Poncet. We apologise for the error.

Air France earnings and turnover decline for 1986

BY PAUL BETTS IN PARIS

AIR FRANCE, the French national airline, yesterday reported lower turnover and profits for 1986.

The airline said the setback reflected reduced activity and the weakness of the dollar. It pointed out that its profits from operating Concorde had fallen sharply.

Air France said its earnings for 1986 declined by 20 per cent to FFr 580m ($94.6m) from FFr 729m in 1985. Turnover declined by 8.5 per cent to FFr 27.7bn.

The company says the fall in profits reflected a difficult international environment for airline companies in general, with the fall in the dollar, terrorism in Europe, the Chernobyl nuclear disaster and, in the case of Air France, the collapse of traffic to Algeria.

The visa requirements for entry into France, introduced by the conservative government to combat terrorism last year, also hit the airlines.

Air France's passenger traffic declined by 3.5 per cent last year, which was offset by a 10.6 per cent increase in freight traffic. The company said its average load factor was held at a high level of 65.2 per cent last year which is 3.5 points more than the industry average.

Cash-flow last year totalled FFr 2.5bn. Concorde operating profits declined from about FFr 60m i n1985 to FFr 25m last year, the airline said.

At the same time as investing in the renewal and development of its fleet, Air France said it will also expand its network this year by opening 13 new routes out of Paris and seven out of the provinces.

Among new routes out of Paris are services to Bristol, Jersey, Gatwick, Stansted, and Southampton in the UK, and Boston in the US.

Jacobs Suchard bids for Hero

BY JOHN WICKS IN ZURICH

JACOBS SUCHARD, the Swiss coffee and chocolate group, has made a takeover bid for Hero, the jam maker which has a stock market value of about $20m.

The bid, which has not yet been publicly spelt out, was immediately rejected yesterday by the Hero board.

Colima Holding, which owns the majority of Jacobs Suchard, has acquired 20,000 bearer shares and 30,000 registered shares of Hero, 32 and 30 per cent, respectively, of the two share categories.

Hero, which says it is "defending its independence" has reacted by making Colima an offer for 80 per cent of its shareholding. Colima has rejected this move and says it will buy more Hero shares on the open market.

The battle, one of Switzerland's rare unfriendly take-over disputes, came into the open earlier this week when Hero asked the Zurich bourse for the suspension of share trading.

Hero sees the Jacobs attempt as an "unfriendly act" and discloses that some months ago it had told Jacobs that it considered a substantial shareholding on the part of Jacobs would not be in the interests of Hero shareholders.

Almost two years ago, a general meeting of Hero agreed measures to block a potential takeover. It had been rumoured at the time that buyers were sniffing, around Hero stock, although this was never confirmed. Hero carried out a share split and created new registered shares.

Jacobs says that synergy between the two companies would guarantee Hero a future as an "independent Swiss company."

Jacobs foresees an enlarged group based on three main product groups. These would be the jam range of Hero, the Jacobs coffee programme and chocolate production including the brands Suchard and Tobler.

A combination of these three product sectors is seen as cutting overall costs and opening up new markets for Hero items. Hero would, it is claimed, also benefit from Jacobs support in financing, research and development.

Jacobs itself came into being some years ago when the family-controlled Jacobs moved its headquarters to Switzerland from Germany and took over Interfood, whose two main subsidiaries were Suchard and Tobler.

In 1985, Jacobs had a turnover of almost SFr 5.4bn and profits of SFr 150m ($97.5m). It expects better results for 1986.

Hero, which has factories in Switzerland, Holland, Italy and Spain, is best known for its jams and canned goods. In 1985, turnover amounted to SFr 424.7m and group profits to SFr 10.7m.

Trelleborg plans to raise stake in Boliden to 65%

BY SARA WEBB IN STOCKHOLM

TRELLEBORG, the Swedish rubber products group, plans to increase its stake in Boliden, the Swedish metals, chemicals, and mining group, to 65 per cent, but says it will not go for a full takeover.

Trelleborg bought a 40 per cent stake in Boliden last April for SKr 700m ($107m) with a pledge to put the ailing company back on its feet.

Since then, Trelleborg has acquired a further 417,500 shares in Boliden and has an option to buy another 97,000 shares, giving it 46.7 per cent of the share capital and 50.2 per cent of the votes.

Trelleborg said it bought the shares from several different holders for between SKr 225-240 a share, putting the value of this purchase at between SKr 115.8m and SKr 123.5m.

Trelleborg now wants to buy up to 1.55m A and B shares in Boliden on the open market and is offering SKr 250 a share—or a total of SKr 387.5m. This would give it 65.4 per cent of the votes and 63.4 per cent of the share capital. The shares closed at SKr 230 on Wednesday.

Trelleborg denied rumours that it planned to take over Boliden completely and said that the increase in its stake was meant to reassure employees and management that it was staying as the main shareholder while still allowing Boliden to have access to the risk capita market.

Boliden made record losses last year, but with the change of management—Mr Kjell Nilsson was brought in from Trelleborg as managing director of Boliden—and the introduction of cost-cutting measures, the group believes it has started to pick up again.

Trelleborg expects to continue its aggressive takeover campaign, and paved the way for further overseas takeovers yesterday with the decision to convert some of its Swedish-held free shares to restricted shares. This would allow it to issue a further 2.4m free B shares if it wanted to takeover a foreign company.

Henkel in metals products deal

HENKEL has bought the European operations of Ecolab of the US, reports Reuter from Dusseldorf.

Henkel said Ecolab's products were marketed in Europe under the trade name Magnus. Magnus operations had an annual turnover of between $7m and $10m. The purchase price was not disclosed.

Magnus' products are used in the cleansing and surface treatment of metals, and the acquisition was aimed at expanding Henkel's activities in this area.

Thyssen steel unit to expand business

By Our Financial Staff

THYSSEN HANDELSUNION, the steel and raw materials subsidiary of the Thyssen group, plans expansion this year after a sales and profit decline in 1985-86, according to Mr Dieter Vogel, the chief executive.

Handelsunion saw group pretax profit fall to DM 63.4m ($34.5m) in the year ended September 1986 from a previous DM 70.4m. Mr Vogel said the decline reflected exchange rate developments, and a provision.

Mr Vogel said the company's world trading profit had risen to just under DM 100m from a previous DM 75m. The amount transferred to the parent company fell to about DM 31m from a previous DM 38m.

Mr Vogel declined to give details of acquisition plans. He added that expansion was planned in recycling, transport, project management and coal trading.

He said the fall of the dollar had accounted for DM 1.7bn of the decline to DM 15.5bn from DM 17.6bn in world group turnover.

Mr Vogel said turnover had continued to decline in the current business year, but added results so far were satisfactory.

Feldmuehle beats forecast

By Our Financial Staff

FELDMUEHLE NOBEL, the industrial core of the former Flick group, said results in 1986 had exceeded expectations and it planned to pay a good dividend.

Group turnover for 1986 held steady at DM 9.6bn, ($5.29bn) compared with DM 9.7bn in 1985. The company gave no indication of profits for 1986, but said results in 1987 would be pleasing.

INTERNATIONAL COMPANIES and FINANCE

Amcor spurred by sliding Australian dollar

OVER THE past two years, as the Australian dollar has plunged 30 per cent on the foreign exchange markets, sceptics have cast around for the Canberra Government's predicted benefits springing from improved manufacturing competitiveness.

They could do worse than look at a Melbourne-based group called Amcor, formerly known as APM, a pulp and paper producer and packaging manufacturer which employs 31,000 people and is one of the country's 25 largest companies.

At at time when many businessmen are complaining about the investment climate in Australia, Amcor is in the midst of an ambitious A$700m (US$450.8m) investment programme which, in both its import replacement and export enhancement orientations, already looks vindicated by the fall in the dollar.

The strategist behind the programme is Mr Stan Wallis, the 47-year-old managing director who has been with the company since he was 20. But it is only in recent years that people have really caught on to what he has done and where his company is going.

Analysts like to call Amcor the "J-curve" company, because it illustrates how the response of Australian manufacturers to a weakening currency is supposed to help curb the country's widening balance of payments deficit.

Amcor has been investing in import-substituting plant and seeking out export markets. The investments are expected to save more than A$400m annually in foreign exchange. The exports promise to boost foreign earnings.

Some idea of where the company fits into Australian life can be gleaned from a single revealing picture in its latest annual report. It shows a small group enjoying a traditional outdoor barbeque picnic.

Practically every item on the table—the beer and soft-drink cans, plastic fruit juice bottles, cooler box, salt and pepper containers, bread and cheese wrappers and paper tissues—is an Amcor product.

Amcor's sales in 1985-86 rose 35 per cent last year to reach A$2.4bn. Pre-tax earnings showed a 19 per cent increase to A$162.8m. Company executives say the company is running ahead of last year and can expect "reasonable growth."

Of the A$700m now being spent on investments, more than a third—about A$250m—is going into the company's traditional area of activity, paper manufacture, which contributed 36 per cent of pre-tax earnings.

The overall market for paper and paperboard in Australia is worth about A$920m. Amcor supplies two-thirds of the paper and paperboard used by the country's packaging industry, dominating the market for container materials, packaging and industrial papers and carton boards.

In business and printing papers, however, it has only a small proportion of the market and imports are prominent. Thus, in its investment programme the key project is an A$70m expansion of the Maryvale plant in Victoria to increase output of the paper products which are now at the heart of modern business life—photocopying paper and computer paper.

CHRIS SHERWELL, recently in Melbourne, reports on a leading manufacturer embarked on an ambitious spending programme at a time when many businessman are complaining about the Australian investment climate

Significant in a different way is a plan to re-start paper mills which were shut down in Botany in New South Wales, and Port Huon in Tasmania, although the latter proposal remains stalled until agreement is reached with the state government in Hobart.

The re-openings are specifically for export markets, notably in Japan, and are a direct result of the weaker Australian dollar and stronger yen.

Despite these changes, Amcor's pulp and paper activities have in fact become relatively less important in recent years. While Amcor's sales have expanded dramatically from A$370m in 1976, the share contributed by pulp and paper has fallen from 76 per cent to 30 per cent.

The sector whose relative contribution has grown is packaging, which in 1986 was responsible for 28 per cent of sales and 42 per cent of pre-tax earnings.

In 1978 the contribution to sales was only 9 per cent, and the increase reflects the acquisition of Containers Packaging in 1982 and the purchase of 50 per cent of James Hardie Containers, which became wholly-owned last April.

Containers Packaging dominates the market for beer and beverage cans. It also produces cans for the food industry, where it has less than half the market.

James Hardie Containers manufactures corrugated fibre boxes for packaging food and drink.

To assert its position, the company has built a new corrugated box-making plant in Sydney. It is Australia's largest, and is one element of Amcor's current A$175m spending programme for the whole packaging division.

Amcor is also installing a A$70m tissue machine at a south Australian mill. The company's dominance of the tissue market springs from its equal joint venture with Kimberly-Clark of the US. The venture has more than two-thirds of the Australian facial tissue market, over half the disposable nappy market and less than half the toilet tissue market.

One of the most interesting Amcor investments, however, is also one of its smallest. It is for A$10m, and is being spent on a corrugated box plant in Hong Kong.

The investment is by Anfor, a joint venture between Amcor and NZ Forest Products (NZFP), the New Zealand company which is currently the subject of a takeover bid by Fletcher Challenge.

Under the plan, NZFP will supply liner board and Amcor the corrugating medium for boxes to be sold into the Chinese, South Korean and Japanese markets.

Mr Wallis does not wish to make Amcor a conglomerate, and sees the acquisition as part of Amcor's natural expansion.

Fundin for Amcor's investments has come principally from internal cash flow, but also from the sale of surplus assets (A$200m over five years) and some borrowing. Although its gearing ratios have risen in recent years, the company remains financially conservative.

In a country where the number of aggressive, high-profile, paper-shuffling companies seems constantly on the increase, that is a quality which distinguishes Amcor from many others.

Ciba-Geigy turnover hit by agricultural reverse

BY JOHN WICKS IN ZURICH

TURNOVER OF Ciba-Geigy, the Swiss chemical group, fell some *13 per cent in 1986 to* SFr 15.92bn ($10.34bn), reflecting the fall in the dollar and poor conditions in international agriculture.

In the previous year, consolidated sales had gone up 4 per cent—despite the disposal of the Airwick division—to a record SFr 18.22bn.

Earnings are to be announced next month. However, a company statement confirms earlier expectations that profits will be below the 1985 group record of SFr 1.47bn. Nevertheless, it is stated that results will prove "satisfactory."

The biggest setback last year was that of Ciba-Geigy's agricultural division, whose sales fell by as much as 26 per cent to SFr 3.78bn, or by 10 per cent in terms of local currencies. This decline is attributed primarily to over-production and the reduction in farm acreage *in the US.*

Pharmaceuticals, as the group's biggest single product group, experienced continuing growth in demand, despite "product withdrawals and economic difficulties in a number of third-world countries." Local currency sales rose by 9 per cent. In Swiss francs, however, turnover dropped 8 per cent to SFr 5.13bn.

Every other product group also booked higher sales volumes but a drop in Swiss franc turnover. The dyestuffs and chemicals division showed a 5 per cent fall in Swiss franc sales to SFr 2.36bn, the plastics and additives sector one of 8 per cent to SFr 3.56bn, the Ilford division an 11 per cent decline to SFr 487m and electronic equipment a fall of 7 per cent to SFr 607m.

Rhone-Poulenc to build two plants in Australia

RHONE-POULENC, the French chemical group, is to build two wholly-owned mineral processing plants at Pinjarra in Western Australia at a cost of A$100m (US$64.4m) to A$150m, Reuter reports from Perth.

One of the plants will extract gallium from liquor to be piped as a by-product from Alcoa of Australia's alumina refinery at Pinjarra, and the other will process monaziite from the state's two mineral sands operations into 15 rare earths.

Construction is expected to start later this year with the gallium plant operational next year and the rare earth plant in 1989.

The company said the first stage of the gallium plant would double world output of the metal. Gallium is used for high-speed computer equipment, laser diodes and other high-technology applications.

Rare earths have applications in metallurgy, glass making, lighting, magnets and electronics and new uses are emerging as additives in fuels, plastics and paints, Rhone-Poulenc added.

HK quote for Baring fund

CHINA AND EASTERN Investment Company, an investment unit managed by Baring International Fund Managers, will be listed on the Hong Kong Stock Exchange from January 20, Reuter reports from Hong Kong.

The company, set up in July and mainly investing in companies with direct business involvement in China, will float 17m ordinary shares and 3.4m warrants.

China and Eastern's net assets were valued at US$31.5m at the end of 1986. It plans to issue a prospectus shortly.

INTERNATIONAL CAPITAL MARKETS and COMPANIES

Clare Pearson on the search for a safer investment haven than the Eurodollar

Ecu market nudges way back into favour

EUROBOND NEW issue managers have begun searching for alternatives to the Eurodollar market, as the weakness of the dollar has made that sector a disaster zone for all but the very best-regarded borrowers.

This week the European composite currency (Ecu) has emerged as the strong favourite, with four deals emerging in the course of two days. This choice is striking since just a few months ago the Ecu market was looking distinctly unhealthy.

Even though the realignment of the European Monetary System (EMS) last weekend failed to lift the gloom for the Ecu market this week's new issues have generally met firm demand.

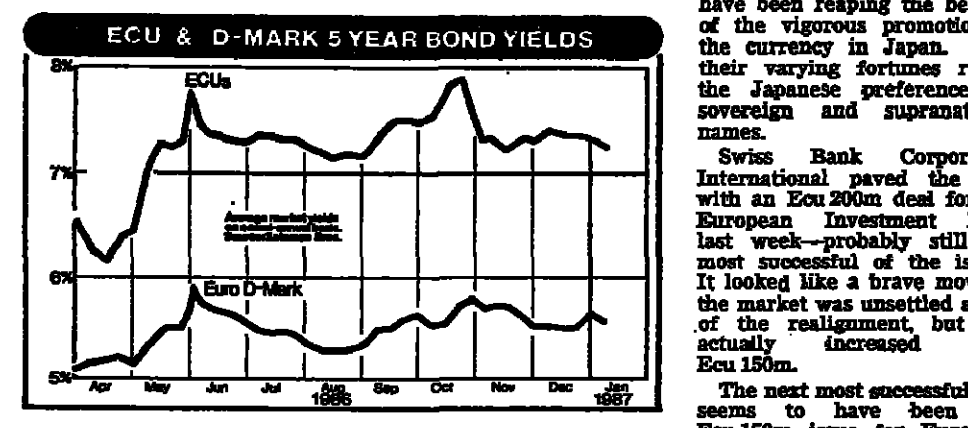
Nothing has worked out as expected for the Ecu. Once heralded as a haven of safety in an increasingly volatile world currency scene, the market was deserted last year by the very European investors who had been expected to form its investment base.

This was because the prolonged decline in the dollar threw the old hard currencies, such as the D-Mark and the yen, back into the limelight, while falling interest rates in Europe detracted from the yield appeal of the Ecu.

Matters were made worse when sterling, which accounts for about 15 per cent of the Ecu's value, declined against other European currencies.

Normally an EMS realignment would divert investors' attention away from the D-Mark (which makes up about a third of the Ecu). The Ecu would attract interest because a removal of the pressure on the weaker component currencies opens up the prospect of lower interest rates in Europe.

But in the case of the most recent realignment this chain of events has been stymied by the continued fall in the dollar. The D-Mark is still attracting the speculative money and the Ecu remains on the sidelines, at least as far as European investors are concerned.



Ecu specialists say the only conditions that could rekindle Continental interest in the market would be a widening of interest rate differentials between D-Mark and Ecu bonds or else a stabilisation of the exchange rate performance of sterling.

Neither of these look like materialising at the moment as the yield differential between Ecu and D-mark bonds is still only around 200 basis points, while sterling has ben on the retreat on a trade-weighted basis this week.

So why have six new bonds totalling Ecu 673m been issued so far this year in this seemingly beleagured market?

The answer is that Japanese investors have come to the Ecu's rescue. The impetus has been their continued search for a viable investment alternative to the US dollar. Of the European currencies the Ecu alone can satisfy their two criteria: a stable currency and a reasonable yield.

D-mark government bonds give them currency strength, and also offer them good liquidity, but are not ideal because their coupons are too low. Meanwhile, the sterling, French franc and Danish kroner markets provide them with attractive yields but leave them vulnerable to sharp currency downturns, and are also too small to paly major roles in their portfolio diversification.

This year's crop of Ecu deals have been reaping the benefits of the vigorous promotion of the currency in Japan. And their varying fortunes reflect the Japanese preference for sovereign and supranational names.

Swiss Bank Corporation International paved the way with an Ecu 200m deal for the European Investment Bank last week—probably still the most successful of the issues. It looked like a brave move as the market was unsettled ahead of the realignment, but was actually increased from Ecu 150m.

The next most successful deal seems to have been the Ecu 150m issue for Eurofima, the European railway stock financing agency.

In sharp contrast, the Ecu 50m issue for Bank Mees and Hope, the kind of name that would once have been just the thing for the Ecu market, has languished.

The other three issues were for CCCE, Sumitomo Finance, and DKB Nederland. These initially traded reasonably well, but have tended to suffer as the market has grown more uncertain in the course of the week.

The better reception given to the supranational names suggests that the Ecu market may be transformed over the coming months. It was originally envisaged along the lines of the Swiss franc foreign bond market: the sort of market where companies that make household goods go down best.

Now it looks as if these types of borrowers will be eclipsed and that the kind of sovereign names that dominate the dollar market will become more common.

This also implies that a "two-tier" pricing structure will emerge: one level for the issues that still aim to mop up residual European demand, and one level for those heading for Japan.

The fear among dealers is the market may have become congested. Though Japanese demand is growing, it may be that only a handful of institutions hae so far been converted to Ecu investment, and their interest is not inexhaustible.

In the wider perspective, the Ecu market is still looking for a basis on which to move ahead, and the weekend's EMS changes have done little to resolve its confusion.

But on the positive side, the market is at least looking much more healthy than it was a few months ago. It has come through the problems of last year with its liquidity still intact and the flow of new issues has resumed. The "new look" Ecu market seems to be here to stay.

Eurosterling bonds move on to the centre stage

BY CLARE PEARSON

EUROSTERLING bonds moved centre stage in the Eurobond new issues market yesterday as the Burton Group, the UK retailer, borrowed £100m with a convertible issue, and the World Bank raised the same amount in the fixed-rate bond market. Both were received enthusiastically by investors.

The Burton Group's 14½ year offering looked generous, with a low conversion premium and attractive put option, but the London market found the bonds in short supply as CSFB, the lead manager, was concentrating its selling efforts on the Continent. The deal was quoted at 105, against a par issue price.

Mr Michael Wood, Burton's finance director, said that the issue was designed to help develop an international market for the company's equity. He added that Burton would be issuing ADR's in the US market in the near future.

The bonds will be convertible into Burton shares at a premium of between 5 and 10 per cent when terms are fixed, on or before January 22. The coupon is expected to be 5 per cent, and investors can put the bonds in August 1992 at a price to give a yield of 10 to 10½ per cent. Burton can also redeem the issue from 1987 at 106, and then at declining premiums.

The issue followed a £48m 6¾ per cent 15½-year convertible for Next, launched last month.

Elsewhere in the sterling market Baring Brothers was concentrating harder on attracting domestic support for its issue for the World Bank.

A maturity of 12 years was chosen to appeal to UK institutional investors, who are buyers of long-dated bonds in the domestic market. And as a further sweetener for investors at home, the deal was priced to give a yield roughly equivalent to that on comparable gilts, though many seasoned Eurosterling bonds are providing lower yields than gilts at the moment.

The issue was not only supported by domestic institutions, but also attracted demand from the Continent. Dealers said that some accounts in Benelux have been switching attention to sterling this week, motivated by the high yields and the hope that the currency will strengthen.

The launch of the 10¼ per cent bond, priced at 100½, coincided with an improvement in the gilt market. It traded around a discount to issue price of about 1½ points, well within its 2 per cent commissions.

Currency concerns continued to overcloud the Eurodollar sector yesterday, but nevertheless Morgan Guaranty managed to launch a deal for Sweden which met strong demand.

Eurodollar investors are fighting shy of less well-known issuers at the moment, but are still prepared to buy sovereign paper. Sweden's deal followed a string of successful issues of this type which have been launched since the beginning of this year.

One factor that Sweden's deal had in its favour was that it was large—$250m—promising good liquidity. Additionally, Sweden has become a relatively infrequent borrower in the market lately, and the deal was fairly priced.

The 7 per cent five-year bond, priced at 101, was quoted at about 99.30 bid, within 1½ per cent fees.

The same selective demand is dominating the Canadian dollar market at the moment. Wood Gundy's C$60m five-year 9 per cent deal for the City of Winnipeg, which is the kind of name the market likes, was expected to go well. It was priced at 101½.

Mitsubishi Finance led a Y5bn 7½ per cent five-year bond for Postipankki, the Finnish bank. The deal, priced at 105, is redeemable in US dollars at an exchange rate of Y173 to the dollar.

In West Germany, Bank Julius Baer Bank and Trust (Cayman Islands), issued a DM 150m 2 per cent convertible 1994 bond, priced at par. Led by Deutsche Bank, the bond is guaranteed by the parent company.

Each DM 10,000 bond entitles the holder to 9 Bearer Participation Certificates (BPCs) in Baer. Baer BPCs closed at SFr 870 yesterday.

Toronto Dominion Bank issued a DM 100m 5¾ per cent 1994 bond, priced at par. Led by Schweizerischer Bankverein (Deutschland) the privately-placed paper is non-callable.

In the secondary market for DM-denominated issues, prices rose ¼ to ½ per cent in heavy speculative buying. Investors are hoping for a discount rate cut soon after this month's general elections.

Prices in the secondary market in Swiss franc issues were up about ¼ point in high volume, notably for higher coupon paper.

SFE trading soars

BY HAIG SIMONIAN

SYDNEY FUTURES Exchange (SFE), which has been diversifying its futures and options products rapidly in recent years, traded a record 3.4m contracts in 1986, a 172 per cent increase over 1985.

The SFE was established in 1960 and now claims to be the world's ninth largest futures market. The Australian 10-year bond futures contract was the biggest contributor to last year's growth, with a volume rising 491 per cent to 1.43m lots last year against 242,282 in 1985.

Turnover in 90-day bank bills, the exchange's second most active contract, reached 1.07m lots in 1986 against 594,086 in 1985. Meanwhile, volume in the All Ordinaries share index contract rose to 464,475 lots compared with 282,317 in 1985.

Slow progress on London-Philadephia link

BY ALEXANDER NICOLL

AFTER nearly two years of negotiations, a planned link between the London and Philadelphia Stock Exchanges for currency options trading still seems some way away.

Links between exchanges are in vogue at present as part of the trend of financial markets towards globalisation. The difficulties dogging these discussions demonstrate, however, the complex problems associated with linking two exchanges with differing back grounds and aims.

They also reflect specific disagreements and changes in the priorities ofthe two exchanges since the link was first proposed. Though no decision has been taken to shelve plans for a link, the differences may take some time to bridge.

Both exchanges say, however, that they are still working towards establishing a link under which their currency options—Philadelphia trades six while London trades only sterling and the D-Mark—would become interchangeable.

Philadelphia pioneered currency options trading in 1982 and is still the leading market for them. London added currency options to its repertoire in 1985, but its volume has been small even though trading of equity options market has surged.

When the talks began, the major hurdles concerned clearing and regulation. Thorny negotiations between the Options Clearing Corporation and the International Commodities Clearing House, which clear Philadelphia and London respectively, eventually produced agreement.

Regulatory problems are not fully resolved. A joint surveillance programme has still to be fully set out and submitted to the US Securities and Exchange Commission. But this should not be a major barrier given the 1986 agreement between the UK Government and US regulatory bodies on exchange of information.

An additional regulatory problem is a US ban on trading of foreign options, though there are hopes in London that this may be lifted or waived to assist the link.

The two exchanges have disagreed on the question of whether their trading hours should overlap. Philadelphia members are concerned that cross-trades between customers of the same firm, which are unpopular on the floor because they deprive other firms of business, could easily be done on the far less active London floor instead.

London's focus has been on equity options, where trading has mushroomed and further expansion is planned.

Inquiry into Sweden's OM launched

By Kevin Done, Nordic Correspondent in Stockholm

THE SWEDISH Government has established a commission of inquiry into the burgeoning Swedish options market, which has grown rapidly over the last 18 months largely outside legislative control.

Present legislation prevents the Stockholm Stock Exchange from engaging in trading in options and other new financial instruments.

As a result OM, the first options market, was launched in June 1985 as a result of a private initiative backed by Carnegie and Alfred Berg, two stockbroking firms, and Investor and Providentia, the Wallenberg Investment companies.

This market has proved to be one of the most successful financial innovations ever introduced in Sweden with a turnover of SKr 11bn in 1986, its first full year of operation.

Disquiet has been voiced, however, that OM is owned by a small number of the actors in the market, and that it carries out itself the role of market maker and clearing house.

The Swedish Finance Ministry said yesterday that the official inquiry would investigate the growth of the new market and would make proposals for its future organisation and regulation.

The directive from the finance ministry stresses the need for setting high standards of independence for the market together with the possibility for close official control.

The inquiry is to study as a first priority the possibility tying the market in some way to trading on the stock exchange and a final report should be completed by the end of the year.

Competition in the Swedish options market has intensified in recent months with the announcement of plans to establish a rival market, called Sofe, the Sweden options and futures exchange.

Sofe is due to begin operations in February or March, and it has already made clear that it intends to give the stock exchange the possibility to take over the market, when legislation allows.

Its start-up has been preempted, however, by OM which has recently launched index-related put and call options, which was to be the starting offer from Sofe.

Three $ issues by Argentina's central bank

By Tim Coone in Buenos Aires

THE ARGENTINE central bank is to issue three new series of dollar-denominated bonds, known in Argentina as Bonex 84, with a total value of $1.5bn (£1bn).

The three issues of $500m each, were authorised by the Economy Ministry on Wednesday and are being offered in part to cover payments of an earlier series of bonds which are coming up for maturity in February.

The bonds have a life of 10 years and have an interest rate payable in US dollars every six months linked to Libor. They also have an annual amortisation payable in US dollars.

Share offering

A share offering launched earlier this week was for Genossenschaftliche Zentralbank and not for Girozentrale as was incorrectly reported in the Financial Times of January 14.

FT INTERNATIONAL BOND SERVICE

Listed are the latest international bonds for which there is an adequate secondary market.

Closing prices on January 15

US DOLLAR STRAIGHTS	Issued	Bid	Offer	Change on day	Change on week	Yield
Amer. Express 7⅝ 93	100	[illegible]	[illegible]	[illegible]	[illegible]	7.99
A/S Eksportfinans 7⅝ 93	100	99½	100	[illegible]	[illegible]	7.67
Australia Com. 11 95	200	116¼	116¼	0	[illegible]	8.18
Australia Com. 11¼ 00	100	116¼	117	0	[illegible]	9.04
BP Capital 9¼ 94	100	106¼	106¼	0	[illegible]	7.89
British Telecom 7⅝ 96	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
[illegible]						

OTHER STRAIGHTS	Issued	Bid	Offer	Change on day	Change on week	Yield
All. Electrolux 14½ 90 AS	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	13.87
Amatil Fin. 14½ 90 AS	[illegible]	[illegible]	[illegible]	[illegible]	−1½	14.71
Amro Bank 14½ 90 AS	[illegible]	[illegible]	[illegible]	[illegible]	0	14.03
Bremer Ldsbk. 12½ 92 AS	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	13.33
Fiat Finance 14½ 89	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	14.09
[illegible]						

DEUTSCHE MARK STRAIGHTS

[illegible]

SWISS FRANC STRAIGHTS

[illegible]

YEN STRAIGHTS

[illegible]

FLOATING RATE NOTES

[illegible]

CONVERTIBLE BONDS

[illegible]

* No information available—previous day's price.

† Only one market maker supplied a price.

Straight Bonds: The yield is the yield to redemption of the mid-price; the amount issued is in millions of currency units except for Yen bonds where it is in billions. Change on week=Change over price a week earlier.

Floating Rate Notes: Denominated in dollars unless otherwise indicated. Coupon shown is minimum. C.dte=Date next coupon becomes effective. Spread=Margin above six-month offered rate (‡ three-month; § above mean rate) for US dollars. C.cpn=The current coupon.

Convertible Bonds: Denominated in dollars unless otherwise indicated. Chg. day=Change on day. Cnv. date=First date for conversion into shares. Cnv. price=Nominal amount of bond per share expressed in currency of share at conversion rate fixed at issue. Prem=Percentage premium of the current effective price of acquiring shares via the bond over the most recent price of the shares.

THE PROPERTY MARKET By PAUL CHEESERIGHT

UNITISATION

Countdown to a novel form of investment

REGULATIONS to cover the trading of single property assets will shortly be agreed by the Stock Exchange. Once in place promoters of different investment schemes can launch their products on to the market.

At this stage it looks as if three different forms of investment in single properties will become available over the next year.

First to arrive will probably be the single asset property company. Mr Peter Norris of Goldman Sachs said that equity, but not debt, in the City of London's Billingsgate office development would be brought to the market as soon as new listing regulations are adopted. Goldman Sachs, with Baring Brothers, floated £80m of Billingsgate equity and debt on the Luxembourg exchange last June because the London Stock Exchange was not then prepared to take the listing.

The second arrival is likely to be the Property Income Certificate (Pinc), sponsored by the Pincs Association initiated by County, the National Westminster merchant banking subsidiary, and by Richard Ellis, the surveyor. It should come in the middle of the year, on the basis of the latest predictions.

A Pinc is both an entitlement to a portion of the rental income in a particular property and a share in the management company set up to run it.

COMPANIES BEHIND THE MARKET

BARKSHIRE		PINCS FOUNDERS	
Mercantile House Holdings	Jones Lang Wootton	Richard Ellis Financial Services	County
Phillips & Drew	Wilverley & Hampshire Estates	ANZ Merchant Bank	Capital & Counties
Prudential Portfolio Managers	Savills	Barclays de Zoete Webb Investment Management	Healey and Baker
British Petroleum Pension Fund	Rowe & Pitman	Commercial Union Assurance	Legal and General
Debenham Tewson & Chinnocks	MEPC	Slough Estates	Town and City Properties
Drivers Jonas	Morgan Grenfell Laurie	The Royal London Mutual Insurance Society	Speyhawk
Baring Brothers	Goldman Sachs International	Berwin Leighton	Peat, Marwick, Mitchell
Salomon Brothers	Linklaters & Paines		
National Mutual Life of Australasia			

By the end of the year, the third arrival, the co-ownership trust, could be on the market. This differs from a Pinc in two important respects.

A unit in the trust carries with it a right to direct ownership, as opposed to a right limited to rental income and control of management. The Pinc can be traded within the framework of the law existing before the passage of the Financial Services Act, while the trust vehicle cannot come to market until regulations supporting the act have been defined.

The trust is the vehicle chosen by the Barkshire Committee, named after Mr John Barkshire of Mercantile House who chairs a group of financial institutions, property companies and surveyors favouring this form of unitised property investment. The Barkshire Committee had come to the same conclusion as the Royal Institution of Chartered Surveyors.

This group has also occupied itself with paving the way for single asset property companies to come to market.

Here, then, are two groups with three products. Two groups, indeed, which last year were glowering at each other across the City in what appeared to be a race to reach the market first.

The Stock Exchange has been the catalyst for reconciliation because it proved necessary to draw up listing requirements which would be applicable to any form of single property investment.

"The Stock Exchange drew the whole thing together. Barkshire and Pincs were back in the same camp," said Mr Tim Sion of Savills, the surveyor, and a member of the Barkshire Committee.

Discussions with all those involved have been amiable and a meeting to wrap up the work should take place later this month.

What has been discussed has been largely the question of adapting regulations which deal with the trading of single companies to regulations which deal with single assets. The Stock Exchange, once it had dropped its opposition to the listing of single property vehicles last summer and had been approached by the Pincs Association for a listing of its certificates, sought to propel the work.

In detailing the listing requirements, it has been necessary to make special provisions in the Stock Exchange rule book. The flotation of a single property vehicle will not necessarily have to be accompanied with a trading history. If there is a specified rental flow, this becomes less important.

Definition of what needs to be disclosed at the point of flotation — rent review clauses for tenants of a property, a building survey, a qualified valuation — has been under negotiation.

The Stock Exchange itself has been concerned about setting limits on the gearing of a single property vehicle and ran into opposition from some institutions. It has also suggested specifying a limit on the value of a building to be floated. This has not been settled but there could be a minimum value of around £20m. In fact, most single properties to come to the market are expected to have a value of £30m-£40m.

Clearly, the nature of the building is crucial. A big office block with a single tenant on five-yearly rent reviews is not a very exciting prospect because the increases in income are spaced out. What is needed, rather, are multi-tenanted blocks with active management bringing about a series of rent increases. Shopping centres come into this category.

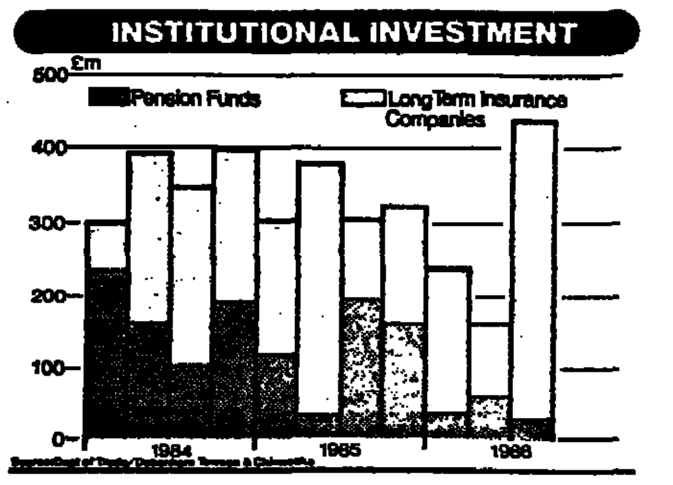
Nobody can precisely gauge the degree of support the market will attract. The latest polling of investment intentions has been commissioned by the Pincs Association. A survey by Consensus Research of the Valin Pollen group found that among 200 potential investing institutions and funds, 56 per cent were likely to put some money in, the majority was prepared to view Pincs as a short term investment, and half the sample would invest in the first two years of the market. Interest had increased since a survey in March 1986.

On the Barkshire side, Mr Barkshire was asked to chair the committee because of his experience in setting up the London International Financial Futures Exchange, and there is some reliance on that precedent.

The Liffe experience suggests a slow start, with banks and big private investors as the first to put money into the market. Institutions like insurance companies and pension funds would follow about 18 months after the launch.

The underlying problem here is that, as the chart shows, institutional investment in property remains low, because the equity market is strong. But the whole object of a unitised property market is to inject more liquidity into the property industry. That in itself might make it attractive to institutions.

INSTITUTIONAL INVESTMENT



Pension funds set their terms for the market

PENSION FUND investment in the unitised property market will be a vital source of liquidity, but latterly the funds have been showing scant interest in property. This may change if the equity market shows less buoyancy.

Their initial approach to any new market is bound to be cautious, both because of the nature of the money they manage and because they have outlined their own stringent criteria for its operation.

The National Association of Pension Funds last year laid down its own 10 commandments for the market. It should:

- Deal only with real assets.
- Be open to all investors.
- Have low unit values of £100 to £1,000.
- Control the management of properties.
- Be a single market.
- Be regulated to protect investors.
- Permit access to the latest trade information.
- Permit access to fundamental information.
- Prohibit insider dealing.
- Safeguard existing owners of assets.

Subject to these preconditions, the NAPF "believes a unitised property market is highly desirable and can be achieved," according to its report on unitisation. What it is careful not to do is to support one scheme of unitisation over another. It is anxious, rather, "to develop criteria against which any scheme can be judged."

UK COMPANY NEWS

Fall in US tourists limits THF profit rise to 5%

BY NIKKI TAIT

THE DOWNTURN in the American tourist trade following US raids on Libya last spring cost Trusthouse Forte, the UK hotel and catering group, £12m in profits last year.

However, after a strong performance by the company's catering interests and pricing improvements on the UK hotels side, THF managed to report a 5 per cent increase in pre-tax profits for the year to end-October at £136m.

Turnover was 19 per cent higher at £1.48bn, with catering accounting for 75 per cent of the increase.

In the UK hotels division, trading profits moved ahead from £82.8m to £86.6m, despite the US tourist slump. The figure includes around £1.5m from the 30 Anchor Hotels acquired as part of the former Imperial Group hotel and catering interests purchased from Hanson for £190m in July.

But Mr Rocco Forte, chief executive of THF, said yesterday that the lower occupancy had been partially offset by less discounting of room rates. The average room rate in the UK increased by around 10 per cent.

The European hotels side — which also takes in the other non-American properties — suffered more severely with a 20 per cent reduction in trading profits to £16.7m. Paris, where THF has three hotels, was particularly badly hit with occupancy rates down by a fifth.

In the US, strengthening of the management and the continuing rationalisation of less suitable properties, helped profits increase from £13.5m to £14.9m.

The biggest profits improvement, however, came on the catering side, where trading profits were 44 per cent higher at 40.4m, with the Imps interests contributing £3.5m.

The advance was spread across the business, said Mr Forte, but was particularly strong on the motorway catering side. Forty new Little Chef outlets were opened during the year and 10 Little Chef lodges. Two new services areas were opened, and another two are expected to come on stream this year. In the current year, THF is hoping to open 50 to 60 new Little Chef or Happy Eater restaurants and 20 more lodges.

Property profits added £4.6m (£8m), and the group took in £7.6m (£6.5m) on its Savoy Hotel stake.

The interest charge last year rose from £27.2m to £34.5m, and gearing—following the Hanson deal—increased to 47 per cent at the year-end. That has now fallen to around 38 per cent after the property refinancing of the US hotels.

Total capital spending during 1985-86 was £300m—including the Hanson acquisition—and will be around £120m in the current year.

The dividend for the year goes up from 5.45p to 6p a share.

Yesterday, Mr Forte said the company was pressing ahead with its court action to reveal who owns various Savoy shares—the case is likely to be heard in a few months time. But he denied recent rumours of stakebuilding in THF.

See Lex

Mr Rocco Forte, chief executive of THF.

Shell in talks to purchase Celamerck

By Andrew Fisher in Frankfurt

Deutsche Shell is negotiating to buy Celamerck, a West German agrochemicals company with annual turnover of more than DM 300m ($163m), as part of its strategy of diversifying beyond the unsettled oil sector.

Celamerck, currently owned jointly by E. Merck the privately-owned West German drug company and Boehringer Ingelheim, is based near Mainz in central West Germany and also has subsidiaries in Italy, Austria, France, Morocco, Ecuador, and Colombia.

Deutsche Shell, part of the Anglo-Dutch Shell group, said the proposed acquisition, for which no price was given, would expand the activities in the agricultural area of its subsidiary, Deutsche Shell Chemie.

Celamerck was formed in 1972 and has always operated at a profit. In 1985, however, its turnover eased by 12 per cent to DM 295m as the result of the closure of a Hamburg factory as part of a restructuring of operations.

The company specialises in marketing and distributing products for plant protection such as insecticides and fungicides. It spends about 10 per cent of its turnover on research and development.

Deutsche Shell, based in Hamburg, said it intended to develop Celamerck's business, with future research being undertaken and extended as part of Royal Dutch/Shell's worldwide research activities.

The negotiations are expected to be concluded during the first quarter of this year. The purchase will make Deutsche Shell into one of the leading participants in the German agrochemicals industry behind Bayer, BASF, and Hoechst of West Germany, and Ciba-Geigy of Switzerland.

Merck and Boehringer intend to move out of the plant chemicals sector to concentrate on other sectors, Shell said. Deutsche Shell raised profits in 1985 to DM 468m from DM 415m, but expected the collapse in oil prices to affect its earnings for 1986.

Second half rise at Eurotherm

Eurotherm International, electronic equipment group, yesterday reported pre-tax profits up from £9.02m to £9.36m in the year ended October 31 1986. The company said the results were much in line with expectations, there being a significant improvement in the second half with profits ahead at £6.01m, against £5.53m last time.

Mr Jack Leonard, chairman, said yesterday that although most subsidiaries had performed creditably, this had been a year when there had been some disappointments, in particular in Eurotherm Corporation and the two Infoscribe companies.

Following a half-year downturn at Eurotherm Corporation, there was a significant improvement as the year progressed and had been maintained in an uncertain US economy up to the present time.

In September, it was decided to take action at Infoscribe to stop continuing losses by divesting the printer activities either by sale, closure or appropriate trading arrangement. In the light of this decision, the accounts show an extraordinary charge of £1.55m, being provision for the potential future losses resulting from such sale or closure.

The company said there would thus be no further losses associated with the Infoscribe companies.

Other activities have been cut. The direct sales of the Penman companies have been discontinued and the Penman plotter will be marketed in future by a major worldwide distributor. Unit-C ceased to trade in November.

Despite the disappointments of this year, prospects remained good, the chairman said.

Mr Leonard said that most of Eurotherm's new venture activities were emerging from the investment stage and were expected to contribute profits in 1987. He said there was every reason to expect further progress with the pattern of systems orders indicating that again the second half would be the stronger.

Sales in 1985-86 increased from £80.96m to £99.36m. After a higher tax charge of £3.97m (£3.56m) stated earnings per 10p share were lower at 19.3p (19.7p), before the extraordinary item. The final dividend is however, raised to 3.5p for a higher total of 5p (4.75p) net.

● comment

Eurotherm warned at the interim stage that full year profits would be flat, so these figures were a pleasant surprise and the shares climbed 33p to 343p. Once again, the company has had its fingers burnt by its brave desire to encourage new ventures; in this case, the problem has been Infoscribe which has cost £4.5m since it was acquired in March 1985. The problems at Unit-C and Penman added a further £550,00 to Infoscribe's £1.5m of trading losses last year so the corrective action taken should boost this year's pre-tax figure. Meanwhile, although demand in the UK has been flat, orders in the US and Europe have been surging ahead, helped by favourable currency movements which added £900,000 to these profits. The company has an unfortunate tendancy towards mishap but the shares seem fairly rated, presuming pre-tax profits of £11.5m, on a prospective p/e of 13.

Andrew Gowers on the final stages of the Tate and Ferruzzi bids

Weighing up the sugar dilemma

MONTHS OF vigorous public lobbying and counter-lobbying over the future of British Sugar, the UK beet monopoly, draw to a close today, when the Monopolies and Mergers Commission is due to deliver its report on two rival attempts to acquire the company to Mr Paul Channon, the Trade and Industry Secretary.

The conclusions of its eight-month inquiry into bid approaches to British Sugar's parent company, S. & W. Berisford, the commodity trader, will not be widely known until Mr Channon has had time to digest them.

But his decision, expected in anything between three and six weeks, is being eagerly awaited by more than the two parties directly involved: Tate & Lyle, the UK cane sugar refiner, and Ferruzzi, the privately-owned Italian agricultural conglomerate.

An extraordinary range of other interests—including Third World sugar producers, Brussels Eurocrats, Scottish trade unionists and East Anglian farmers—could be materially affected by the outcome.

Nothing less than the future of the troubled sugar industry in Britain is ultimately at issue.

Within the Government, the debate has once again raised tricky policy questions over an industry which is surrounded by a bewildering amount of red tape and official interference—and which has been bedevilled for years by damaging rivalry between beet and cane sugar.

Yet there is a strong chance that the inquiry will resolve none of these problems. Many of those who have given evidence to it believe that the Commission will recommend clearing neither bid, for while both would-be bidders have extremely pressing reasons for wanting to get hold of British Sugar, they have also raised considerable political and commercial misgivings.

Ferruzzi is Berisford's preferred candidate at the moment, and has struck a conditional deal under which it would acquire a 70 per cent stake in British Sugar for what City analysts regard as an extremely generous £425m.

The Ravenna-based group, which already controls substantial sugar interests in Italy and France, wants refining capacity in another key market in order to strengthen its already considerable influence in Brussels.

With the British company, it would control a little less than a quarter of all EEC beet production.

For Tate, the move—while dressed up as a grand plan to unify the industry—is essentially defensive: it wants to control its only significant competitor in the UK in order to put an end to the persistent battle between beet and cane, in which beet has increasingly been winning the upper hand since Britain joined the EEC.

Last year, a price war in packet sugar threatened to wipe out Tate's UK refining profits altogether. Acquisition of British Sugar would give Tate 94 per cent of the British market (or 18 per cent of EEC production, as Tate prefers to put it).

The Monopolies Commission, which has been deliberating and taking evidence since last May, ought by now to be numbingly familiar with the issues, since this is the second full investigation of bids for British Sugar it has mounted in around five years.

An informal survey of witnesses reveals a striking degree of agreement on what the outcome will be. The consensus appears to be that it is hard to conceive of Ferruzzi being given the go-ahead, and it is somewhat unlikely that Tate will be either, though many people regard the UK company as the lesser of the two evils.

The Italian company has a formidable array of opponents, including some of the biggest industrial sugar buyers and merchants; the National Farmers' Union; and predictably enough, the cane producing countries which depend on Tate & Lyle's two port refineries for the processing of their exports.

As some of the critics admit, there is more than a hint of emotion—which has been christened the "Westland factor"—about the campaign against the Italians.

But they argue that giving Ferruzzi control of British Sugar would dramatically enhance the already strong position of the beet industry vis a vis cane in Europe and the UK; and more dangerously, it would give the Italian company a lucrative outlet for the surplus sugar it produces through its French affiliate, Beghin-Say.

The ultimate fear is that Ferruzzi would have the power to control prices on the UK market and possibly to make life even more difficult for Tate than it has been recently. The cane refiner has taken every opportunity of warning that the position of its smaller refinery, at Greenock in Scotland, could easily be jeopardised.

The case against Tate is less clear-cut, according to many of the witnesses. But at least one of Britain's biggest industrial sugar buyers has spoken against the UK refiner, and many other experts doubt that the Government will deem it either politically or legally wise to give it the green light.

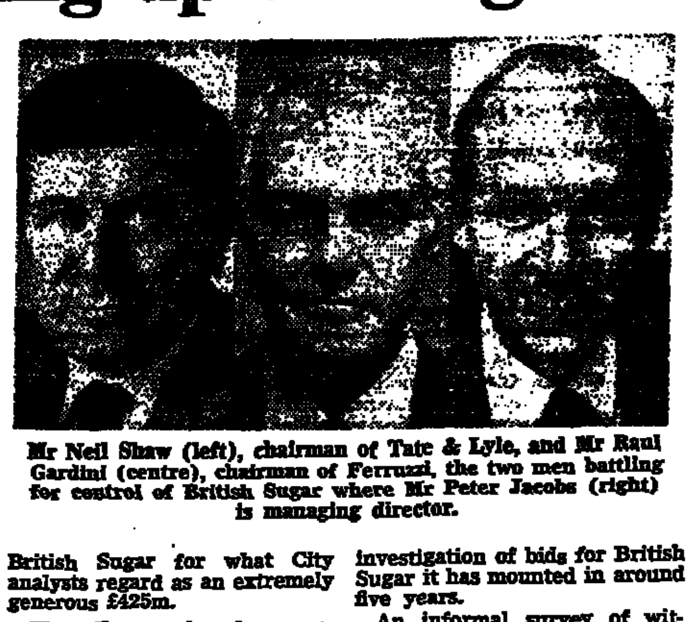
First, they make the obvious point that 94 per cent is an enormous chunk of a market to put in one pair of hands. One buyer is unmoved by Tate's argument that it would be forced to adopt responsible pricing policies by competition from imports of beet sugar from the Continent.

Second, there is talk that if the Government bowed to political pressure and cleared Tate while blocking Ferruzzi, the Italians might be tempted to test the decision in the European Court.

So if both bids are blocked, where does that leave British Sugar? Few observers expect it to stay in the hands of Berisford for long in any case; the parent is widely believed to want a sale.

Rumours are rife that other potential buyers could swiftly materialise—Hillsdown Holdings, the food and furniture group, for example, which dropped an earlier pursuit of the company when it was referred to the MMC, or Suedzucker, the West German sugar co-operative which is believed to have been talking to British farmers' representatives.

Probably worst off under the preservation of the status quo would be Tate & Lyle. The company has invested a tremendous amount of management effort in the pursuit of its rival, and Mr Neil Shaw, Tate's chairman, desperately needs something to show for it.



Mr Neil Shaw (left), chairman of Tate & Lyle, and Mr Raul Gardini (centre), chairman of Ferruzzi, the two men battling for control of British Sugar where Mr Peter Jacobs (right) is managing director.

Acatos beats flotation forecast

A GOOD final quarter enabled Acatos & Hutcheson Britain's second largest producer of edible oils, to exceed handsomely the profit forecast in its offer for sale last July.

Pre-tax profit for the year ended September 28, 1986 came to £7.25m, against an estimate of not less than £6.7m and with £4.03m achieved in 1984-85. The dividend, also, is above forecast — the final is 3.75p, against 3.25p promised, to make 5.75p (2.5p).

Mr I. S. Hutcheson, chairman, said the profit improvement continued in the first quarter of the current year. The integration of the new subsidiaries was proceeding well.

The group continued to seek to expand and broaden its areas of operation within the food industry, and to maximise the potential of acquisitions as well as the organic growth of existing businesses.

Turnover in the year fell to £188.86m (£266.8m) but the chairman stressed that turnover alone was not a good measure of performance because of the volatility of raw material prices.

The year demonstrated that in as much that turnover increased in volume terms and cash turnover declined. The group bought, manufactured and sold more units than ever, but the value attached to them was considerably lower.

Parts of the group where previous performance had not been satisfactory have improved their efficiency and productivity over the year. The majority of past manufacturing problems had been overcome.

In 1985-86 the operating profits rose to £9.14m (£7.2m) and was boosted by a cut in net interest charges from £3.18m to £1.89m. Attributable profit worked through at £4.27m (£2.64m) for earnings of 15.3p (10.4p) per share.

● comment

Acatos & Hutcheson's shares have made astonishing progress since the company's flotation last August: from the offer for sale price of 160p, they have risen by 72 per cent to 275p, some 23p of which was added in the wake of yesterday's strong results. Many of the reasons for caution at the time of the flotation have gone away. The edible oils business is still mature, the butter mountain still poses a threat, and new refining capacity is still overhanging the industry. A. & H., however, is increasingly perceived as the Hillsdown of the sector, expanding through acquisitions and the application of its management skills to stodgy businesses. On £9m for the current year the shares, buoyed by their scarcity, are on a prospective p/e of 14.5. That looks a little demanding at a time when some theorists insist that an edible oil price war is imminent. If the war does take place, A. & H. seems unlikely to emerge as a casualty: yet it would be surprising if it did not pick up the odd scar.

Broad Street buying Profile

Broad Street Group, the City public relations and advertising organisation, is buying the Profile group of companies which specialise in corporate and political PR.

It has reached agreement with the founder directors, Dorothy and Victor Drake, for the acquisition of their interests which comprise 100 per cent of Profile Public Relations and 73 per cent of Profile Political Relations, and is currently negotiating with the minority holders.

Pre-tax profits of the Profile companies in the year to end-August were around £170,000

Beecham in £5m disposal

Beecham Group, the pharmaceuticals and consumer products group, is selling Diplona, its range of German hair care products to Nova Kosmetics, which is jointly owned by Henkel and 4711, Ferd. Mulhens, for over £5m.

Beecham has been weeding out non-core businesses in a major strategic review. In December it sold the UK and European parts of its home improvements business to Henkel.

Diplona was acquired in May 1985 together with the Sport Lavit range of toiletries. Beecham said Sport Lavit was making good progress and would be retained by the group.

Birmingham Mint

Birmingham Mint Group said that 88 per cent of the 2.51m new ordinary shares offered by way of rights had been taken up.

The funds raised have been applied in acquiring the electrical contacts and high density metal components business of Johnson Matthey Metals. The acquisition of the contacts business was completed on January 5.

Fenner showing significant rise

Mr P. W. Barker, chairman of J. H. Fenner (Holdings), told the annual meeting that group performance in the first quarter of the current year exceeded the comparable period and was significantly ahead of the previous half year (profit £1m).

The group, power transmission engineers, expected the momentum to be maintained for the year and viewed the future with confidence.

On the stock market yesterday the shares eased from previous trading levels, but picked up on the statement and finished 7p ahead at 153p.

W. A. Tyzack shares fall back

Shares in W. A. Tyzack, Sheffield-based precision engineer, yesterday fell 7p to 99p. It announced on Wednesday that it had rejected an offer of merger talks by Noble and Lund.

Noble yesterday described the Tyzack statement as "wholly premature." Mr Terry Galgey, chairman, said: "Whatever we do will be in the interests of Noble and Lund shareholders. The price rise makes it very difficult." Tyzack shares jumped 24p on Wednesday.

BOC's good start

BOC Group's first quarter, to December 31, was very strong, according to Mr Richard Giordano, chairman, adding that the results were in line with his forecast of excellent growth in both profits and earnings in the present year.

M & G Dual

Net revenue of the M & G Dual Trust rose from £1.65m to £1.94m during 1986 after tax of £792,000 against a previous £708,000.

Earnings per 10p income share improved by 4.99p to 33.7p and a final dividend of 18.05p raises the net total from 28.75p to 33.7p.

Net asset value per 10p capital share advanced from £11.557 to £15.657.

BOARD MEETINGS

The following companies have notified dates of board meetings to the Stock Exchange. Such meetings are usually held for the purpose of considering dividends. Official indications are not available as to whether the dividends are interims or finals and the subdivisions shown below are based mainly on last year's timetables.

TODAY

Interims: F. Copson, Kakuzi, Zetters.
Finals: Bett Brothers, Greenfriar Investment Trust, Jersey Electricity.

FUTURE DATES

Interims—	
British Bloodstock Agency	Jan 27
Goodhead Print	Feb 16
M.L. Holdings	Jan 29
Symonds Engineering	†Jan 22
Vibroplant	Jan 26
Finals—	
Appletree	Jan 30
Bank Leumi (UK)	Feb 4
Glass Glover	Jan 29
Reuters	Feb 11
Southern Business	†Jan 21

† Amended.

DIVIDENDS ANNOUNCED

	Current payment	Date of payment	Corresponding div	Total for year	Total last year
Acatos & Hutcheson	3.75	Apr 13	0.67	5.75	2.5
Dalepak Foods ......int.	0.9	Apr 6	—	—	—
Eurotherm	3.5	Apr 9	3.25	5	4.75
Jones Stroud ......int.	3.5	Apr 6	3	—	8.5
Oakwood Group	4	Feb 27	3	4	5
Raeburn Trust	8.5	Feb 24	6.9	13.5	10.5
Trusthouse Forte	4.67	Apr 6	4.18	6	5.45

Dividends shown pence per share net except where otherwise stated. *Equivalent after allowing for scrip issue. †On capital increased by rights and/or acquisition issues. ‡USM stock. §Unquoted stock.

UK COMPANY NEWS

Valuedale increases offer for Simon to £201m

BY CLAY HARRIS

Valuedale yesterday fine-tuned its proposal for a management buy-in at Simon Engineering with a revised and increased offer that values the engineer and process-plant contractor at £201m.

Valuedale, a company set up specifically to mount the Simon bid, says its new and final offer is worth 325p, against 280p previously. It reduces from 38 per cent to 15 per cent the stake to be held by Valuedale's executives and institutional backers if the new management succeeds in raising the Valuedale share price to a certain level.

Hill Samuel, advising Simon, dismissed the new offer as "more of the same" and predicted that it would be roundly rejected by Simon shareholders. The revised offer was announced after Simon shares closed 3p up at 321p.

Valuedale has also changed its banker. Morgan Guaranty has now agreed to provide £90m in medium-term finance on revised terms from the £100m originally promised by Citibank. Valuedale said that Citibank had tendered for the revised package, but that the other US bank had offered better terms. This was confirmed last night by both banks.

The company would now be allowed capital spending of up to £12m without its lender's consent and would have to repay only £18m in the first two years. Under the original agreement, Citibank could have required repayment of £40m in the first two years and could have limited capital spending to £5m a year.

Morgan Guaranty has also agreed to provide at least £70m in additional bonding for the company's projects. Simon had argue dstrongly that bonding would be at risk if the Valuedale bid succeeded.

Mr Philip Ling, who would become Valuedale chief executive if the bid succeeds, said yesterday: "You've got to get dynamism into this company at top level." Mr Ling's fellow executive directors are Sir David Nicholson, former BTR chairman, and Mr Norman Ireland, also of BTR.

The new offer comprises 150p in cash or loan notes, one Valuedale ordinary share valued at 125p and 50p worth of Valuedale preference shares. The ordinary share must rise in price to 200p for the conversion of the bidder's deferred shares to be triggered. Valuedale had formerly offered 180p in cash and an ordinary share valued at 100p.

Accepting shareholders will be allowed to opt for more cash or shares, but only to extent that others choose the alternative.

The revised terms reflect to some extent the widespread criticism of the original bid, and shareholder response poor even by current standards for initial offers. Valuedale spoke for less than 0.5 per cent of shares at the third acceptance date on Monday.

See Lex

MSCC refuses to accept defeat

BY IAN HAMILTON FAZEY, NORTHERN CORRESPONDENT

The shareholder directors of Manchester Ship Canal Company yesterday refused to accept defeat by Highams in the takeover bid which closed on Wednesday.

They say that institutional shareholders have indicated an unprecedented willingness to break down their holdings so as to maximise voting power and try to thwart Highams, which is privately owned by property developer, Mr John Whittaker.

Highams yesterday released its final figures on the outcome of the bid, which show that the Lancashire textiles company has 80.4 per cent of the preference and 34.5 per cent of the ordinary shares, representing 57.5 per cent of the total equity.

But since the voting structure is tapered to favour small shareholders, this may not mean that Mr Whittaker has control yet. All will depend on which side can assemble more nominees and achieve greater breakdown.

Mr Nicholas Berry, MSCC chairman, said that "an unshakeable block of institutional shareholders" had resisted the bid to the end. Only 4 per cent of ordinary shareholders had accepted since its August launch, a figure confirmed by Highams.

The institutions involved in the breaking down will be Prudential Assurance, the Water Authorities Superannuation Fund, Schroder Investment Management, the Carroll Group, Harraps, Globe Investment Trust, and the Royal Bank of Scotland.

They control at least 28 per cent of the total equity, all ordinary shares. Each side now has six weeks to maximise its voting strength before the Takeover Panel adjudicates on the bid. Mr Whittaker claims to have 35,000 nominees standing by, while the MSCC's latest recruits include the mateur soccer players and officials of the 45-club Manchester and district Sunday league, who play for an MSCC-sponsored trophy.

Mr Whittaker said yesterday that MSCC was now "a subsidiary of Highams." He intends to sack the shareholder directors as soon as possible and run the business as he wants.

Mr Berry believes that Mr Whittaker is hamstrung because, he says, an act of Parliament will be needed to change the company and under Parliamentary standing orders this will require a 75 per cent majority of the capital, without regard to voting weight.

All-round growth at Raeburn

Revenue growth of 25 per cent was achieved by Raeburn Investment Trust over the year to November 30 1986. And, compared with a forecast of at least 7p, the directors are lifting the final dividend to 8.5p which raises the total by 3p to 13.5p net.

Gross revenue for the year improved to £5.98m (£4.77m). After interest of £905,000 (£653,000) and tax of £1.58m (£1.4m) net revenue emerged at £3.49m, against a previous £2.73m.

Earnings per 25p share rose to 12.78p (9.91p) and at year-end net asset value per share totalled 525.8p (424p), assuming full conversion of the loan stock.

Mr David Hopkinson, who was appointed chairman of Raeburn last April, said: "These results are very rewarding and a sign that we are well on the way to achieving our long-term objectives of both a high yield and above average dividend increases."

The trust's shares closed 8p higher yesterday at 468p.

English China controls 21% of Bryant

English China Clays said that it controlled 21.2 per cent of Bryant Holdings shares after Keyes Properties, an associate, agreed to buy further shares at 180p, equal to its cash offer for the Midlands-based housebuilder.

Keyes is a 50-50 joint venture with Schroders, the clays, quarrying and construction group's financial adviser.

EEC also announced that it had raised its holding in Cedecsa, Spanish maker of kaolin pigment for the paper industry, to a controlling 72.3 per cent with the purchase for Pts 180.7m (£933,000) of an additional 24.3 per cent stake.

NEW LIFE BUSINESS

Strong underlying trend as Abbey Life rises 10%

BY NICK BUNKER, INSURANCE CORRESPONDENT

NEW BUSINESS at Abbey Life, the Bournemouth-based unit trust and unit-linked life group, grew by 9.5 per cent in 1986, when measured by new initial commissions, Mr Michael Hepher, group chairman, said yesterday.

New commissions were £50.8m, compared to £46.4m the previous wear. The figures disguised a far stronger underlying trend, Abbey Life said, because pre-Budget fears of tax changes had artificially boosted pensions sales in early 1985.

The last nine months of 1986 saw new initial commissions rise by 21.7 per cent compared with the same period in 1985.

New premiums rose by 38 per cent to £227.4m. This included a 31.1 per cent increase in regular premium life business to £45.5m, and a 30 per cent rise in single premium life and annuities to £118.7m. Regular premium pensions business fell 12.6 per cent to £33.3m, while single premium pensions rose 20 per cent to £25.7m.

Abbey Life said there were a number of encouraging features of the year's sales, including strong performance by the agency division, and good results from the unit trust and foreign subsidiaries.

"Dull spots were the broker division and direct response sales through Ambassador Life," it added.

Abbey Life expanded its sales force by 151 to 2,710 by the end of 1986, in line with its commitment to further growth, the company said.

Growth at General Accident

General Accident yesterday reported net new sums assured for 1986 of £5.72bn (£4.85bn in 1985) of which £3bn (£2.2bn) was in respect of UK life business, and £2.7bn (£2.52bn) was in respect of pensions business.

Immediate annuities of £1.8m per year (£1.6m), deferred annuities of £68.8m per year (£81.4m), and permanent health benefits of £7.2m per year (£8m) were written in addition.

New annual premiums amounted to £29.8m (£25.7m), of which £17.8m (£11.8m) was in respect of life business, £12m (£13.7m) in respect of pensions business, and £0.2m (same) in respect of permanent health business. Immediate annuity considerations and single premiums totalled £29.7m (£48.2m).

Commenting on the new business figures, Mr Nelson Robertson, general manager, said: "The year 1986 has seen significant growth in conventional life business, particularly in our mortgage-related contracts. The acquisition by General Accident of a group of estate agents is likely to increase further our share of this market.

"Sales of unit-linked business were disappointing earlier, but have been improving, particularly in the latter part of the year, following the launch of Kaleidoscope, our new flexible whole-life product."

The results cover the operations of General Accident's two UK life companies—General Accident Life Assurance, based in York, and General Accident Linked Life Assurance, based in Croydon.

COMPANY NEWS IN BRIEF

POLLY PECK has signed a final agreement for the purchase of Russell Hobbs and Tower Housewares from TI, at a price based on the audited net asset value at the end of 1986. The price is expected to be about the £12m figure suggested when the deal was announced last month. Polly Peck is to pay £7m in cash on February 1 and the balance on June 1.

PROPERTY TRUST'S £3.4m rights issue has been accepted in respect of 95.2 per cent—the balance has been sold in the market. The cash call (the second in 1986) is accompanied by a capital reorganisation after which the company plans to re-establish itself as an active property trading company.

PLM, Swedish container manufacturer, listed in London, is buying Etimex, West German packaging company which is a British Petroleum subsidiary.

DEWHURST (maker of electrical control equipment) lifted turnover to £4.46m in the year ended September 28 1986 (£4.26m) but saw profit drop from £403,000 to £352,000, before tax, £99,000 (£87,000). Earnings 3.51p (£.39p) and final dividend 0.8p for total 1.2p net (1.05p). Extraordinary credit £19,000 (nil). Directors were expecting slowdown after record first half.

T. Warrington & Sons has agreed to acquire Emery (Halesowen), property development, investment and general contracting group, for £1.2m. Consideration payable as to £0.25m by an 8 per cent convertible loan stock 1988-90; £0.2m by an issue of new ordinary and £0.75m in cash.

TRUSTHOUSE FORTE, the hotel and catering group which last summer bought the former Imperial Group restaurant and hotel businesses from Hanson Trust for £190m, only to see the acquisition referred to the Monopolies Commission, has given undertakings that it will run the chain of Happy Eater roadside restaurants as a viable business—discrete from the rest of the company—during the MMC's enquiry.

Cronite Group is proposing to convert its preference shares into ordinary shares, and also to adopt new articles of association.

The company's share capital includes 140,000 5.6 per cent non-cumulative preference of 25p each, which represents under 2 per cent of the issued share capital. The directors are proposing a conversion at the rate of three preference for one new ordinary which will rank pari passu with exisiting shares.

Frank G. Gates, the London-based Ford dealer, is preparing a profit and dividend forecast to bolster its defence against a hostile bid from Giltrap Holdings, the UK arm of a New Zealand car distributor.

UK COMPANY NEWS

Floyd Oil buys Hampton's coal-mining interests

BY LUCY KELLAWAY

Floyd Oil Participations, independent onshore oil exploration company, is buying, for £5.75m, the coal-mining interests of Hampton Gold Mining Areas, UK-based company which was taken over last year by the Australian entrepreneur, Mr Alan Bond.

Hampton's coal division, which operates seven mines in Staffordshire, Derbyshire and Scotland is the biggest private producer of underground coal in the UK.

The deal, which will almost double the size of Floyd, is to be financed by a £5m share placing at 40p, an 11p discount to Wednesday's closing price. The shares have been conditionally placed with Bricomin Investment and the English Trust Company.

Floyd's existing shareholders will have the option to take up 83.5 per cent of the issue at the placing price on a two-for-three basis.

The company also announced that Mr Simon Miller, is to join Floyd as chief executive, and will be resigning as a director of County Limited, National Westminster's merchant bank.

Mr Joe Floyd, executive chairman of Floyd, said that the coal deal would provide the company with enough cash to fund its active programme of onshore drilling in the East Midlands, which was not expected to yield oil until 1988.

By expanding the company's asset base, strengthening its balance sheet and adding to its cash flow, the acquisitions would put the company in a stronger position to grow by making further deals, he said.

The purchase also brings tax benefits, as accumulated losses of more than £3m at Floyd could be offset against profits from the coal business.

The deal is the most recent in a succession of transactions by the smaller independent oil companies, aimed at bringing in cash to plug the drain resulting from the fall in the oil price.

Mr Floyd said yesterday that the company had been looking hard at a number of deals for more than a year, but that as a small company it could not afford the extraordinary prices being paid for oil reserves.

In the year to March 1986 Hampton's coal businesses made profits before tax of £384,000 on a turnover of £6.8m, compared to a profit of £724,000 on sales of £8.2m in 1985. The company says the decline was due to the after effects of the miners' strike and to the costs of bringing a new mine into production.

London growth boosts Dalepak

DALEPAK FOODS saw pre-tax profits improve by 42 per cent to £614,000, against £432,000, in the first half. Mr Jonathan Ropner, chairman, said the successful television advertising campaign in London contributed substantially to the improvement.

Sales in the six months to the end of October 1986 rose from £7.71m to £9.23m, an increase of 20 per cent. Earnings per 5p share came out at 3.58p (3.2p) and the company, a frozen food manufacturer based in North Yorkshire, is paying its first dividend since obtaining a listing in May, an interim payment of 0.9p.

The chairman added that sales of Ready Meals products, which had not been advertised, had improved modestly since the launch in April. A profit contribution was expected in the next financial year.

During the second half the company intended to build its ready meals business with major customers by expanding the range and developing new products in conjunction with major retailers.

"We expect the growth of our grillsteak business to continue and our profits to increase in the second half," said Mr Ropner.

Interest charges in the period were down from £152,000 to £56,000. Tax took £215,000 (£154,000) and there was an extraordinary credit of £80,000 (£60,000) being the interest arising from the deposit of application monies following flotation.

The shares rose 3p to 143p.

Viking Packaging debut

BY RICHARD TOMKINS

Viking Packaging, a Midlands-based manufacturer of plastic packaging materials used for food, clothing and other products, is to become the first business to join the stock market in 1987.

It is seeking a main market quotation through a placing of 3.2m shares at 130p each by J. Henry Schroder Wagg. Brokers to the issue are Cazenove and Schroder Securities, and the company's value at the placing price will be £12.3m.

Viking was founded in 1969 by Mr Stephen Ellis, its chairman, and originally made polythene bags using bought-in polythene film. Since then, it has expanded to become one of Britain's leading makers and printers of polythene and polypropylene packaging, and it was last month named West Midlands Business of the Year by the Confederation of British Industry.

Most of Viking's sales are of printed and plain bags used for products such as bread, fruit and vegetable produce, and frozen pizzas. The company supplies the higher added value sector of the market with materials such as printed film, where its customers are moving increasingly towards high-quality photographic reproduction.

Pre-tax profits have risen from £369,000 in 1982 to £1.27m for the year to last September on turnover up from £8.57m to £18.12m. The historic price/earnings ratio at the placing price is 12.5—a figure similar to the one at which Gaynor, another packaging group, was floated last month.

The shares beinig sold represent 33 per cent of the enlarged capital. Just over half of them will be new shares issued by the company and the rest will be sold by existing shareholders. The £1.85m net proceeds to the company will help cut borrowings and should reduce the debt/equity ratio from 76 per cent at the last year-end to about 30 per cent next September.

Walker Greenbank takes over shelving company

BY PHILIP COGGAN

Walker Greenbank, the acquisitive engineering mini-conglomerate, has bought Alkar, a supermarket shelving company, for a minimum of £3.45m.

Alkar, which is run by its founder and managing director Mr Alan Carr, who will join the Walker board, manufactures, supplies and fits supermarket shelves and other metal fittings like the turnstiles which guide shoppers into and out of stores.

In the year ended December 31, 1985, it made pre-tax profits of £273,000 on turnover of £2.54m and in the financial year just finished, the vendors have warranted that pre-tax profits were not less than £900,000.

The consideration is based on that profits forecast and will be reduced by five times the amount of any shortfall.

Payments will be made via a vendor placing of 3.79m shares at 58p each to raise £2.2m at the end of this month and via a further placing to raise £1.25m at the end of January 1988.

Further payments will be made of half Alkar's profits for the next three years up to a limit of £11m.

Halftime rise for Jones Stroud

In the six months ended September 30, 1986 Jones Stroud (Holdings) raised its pre-tax profit from £2.02m to £2.23m. This was equal to a percentage rise of 10, on a turnover 6 per cent higher at £21.78m.

The group makes materials for the textile and electrical industries. It is raising its interim dividend from 3p to 3.5p net, on earnings ahead from 12.6p to 14.75p.

The directors forecast that the full year profit would exceed last year's £4.2m. The final dividend was 5.5p.

In the half year trading profit rose to £2.2m (£2m), while a drop in associates' contribution to £138,000 (£341,000) was offset by a reduction in net interest charges to £123,000 (£316,000).

Net profit came through at £1.42m (£1.22m) and that was boosted by an extraordinary gain of £2.11m, being the profit on the sale of the holding in Fothergill and Harvey.

Norbain incurs £399,000 loss at six months

Norbain Electronics, the USM electronics components distributor, swung from profits of £333,000 to losses of £399,000 pre-tax in the half year to October 31, 1986.

The directors pointed out, however, that despite the loss the company showed an improvement in its trading performance over the preceding six months when a loss of £500,000 was incurred.

They said the improvement was achieved primarily in computer activities where volume rose by almost 40 per cent, although gross margins reduced 1 per cent. The components business declined 19 per cent, partly as a result of a slowdown in ordering by British Telecom.

The half year loss took into account an exceptional provision of £141,000 and interest charges of £233,000 (£129,000).

The directors said the company had been trading at a profit in the last three months and added that they were encouraged by the outlook.

Camden Palace raising £1.2m

Camden Palace, which operates the eponymous discotheque plus others in the UK and Majorca, is raising around £1.2m via a placing on the over - the - counter market. Exactly 2m shares are being placed at 60p each, representing 20 per cent of the capital. The proceeds will be used to repay borrowings.

The group is forecasting that in the year ending June 30, 1987, it will make pre-tax profits of not less than £600,000 of which £300,000 will be contributed by the Majorca club.

Wellcome moves to sell Aids treatment in US

BY TONY JACKSON

Wellcome, the UK drug company, has applied for permission in the US to market its treatment against Aids.

Applications in major European countries are expected shortly.

Mr Alfred Shepperd, the chairman, told shareholders at the AGM that the drug, previously known as azidothymidine or AZT, was now to be called by the chemical name of zidovudine and the brand name of Retrovir.

He said initial demand for the drug was expected to exceed supply. However, the £17m investment in new capacity in the UK and US was proceeding as a matter of urgency. "From May 1987 sufficient Retrovir should be available to treat patients in many countries," he said.

Mr Shepperd said that Zovirax, the herpes treatment which is the group's biggest-selling prescription drug, had just been launched in oral form in the UK as a treatment for shingles.

"We believe that the market for Zovirax world-wide will continue to grow as new indications and new formulations are added," he said.

All-round rise at Armour Trust

IMPROVEMENT IN all its trading divisions led to an 89 per cent surge in pre-tax profits at Armour Trust for the six months to October 31, 1986.

Turnover for the company, which is involved in confectionery and the distribution of electronic components and car accessories, jumped by nearly 50 per cent to £7.92m (£5.3m). The pre-tax result came out at £575,000 against £304,000.

Mr Andrew Balcombe, the chairman, said the figures indicated excellent organic growth.

Earnings for the half year showed a 43 per cent increase to 1.64p (1.15p) per 10p share. The company does not pay interim dividends.

The chairman said the trading strategy of the confectionery division was proving successful, with sales growth and trading profits exceeding expectations.

Substantial sales gains had also been made in the car accessories market, due in part, he said, to the Gran Pree acquisition in June 1986. Pole, recently completed the acquisition of Petersfield-based AML group, which is intended to become the focus of its packaging and product development.

Oakwood shortfall blamed on building products side

A DOWNTURN in the second six months after a static first half left the Oakwood Group with profits of £155,000 for the year to September 30 1986, a shortfall of £49,000 on the figures of the previous year.

The directors said the results were materially affected by losses incurred in the wholesaling of building products during a year when major changes of management, style and locations had taken place and margins had continued to be under pressure.

Shareholders were told that the first half of the current year should see a substantial improvement in the rationalised wholesaling activities which, with continuing progress in the civil and electrical engineering division, bode well for the year ahead.

Turnover for 1985-86 improved from £12.8m to £13.64m. Tax took £71,000 (£61,000) and left the available balance at £84,000, against a previous £143,000.

Earnings amounted to 4.2p (7.2p). After passing the interim dividend (2p) the directors are paying a final of 4p (3p) net.

The group was recently advised that it had won its planning appeal for the redevelopment of its freehold premises in Westminster Bridge Road, Southwark, as offices.

Bridport-Gundry

Mr R. W. Holder, chairman of Bridport-Gundry, a netting and twisted and woven products group, told the annual meeting yesterday that half year profits would be depressed.

Although the directors expected a much better second half, some of the benefits would run over into the next financial year, he said. For the half year to January 31, 1986 the group's pre-tax result was £924,000 (£646,000).

Analysis of bank advances and acceptances

to UK residents by reporting institutions in the UK at November 30 1986 (Table 5, Bank of England Quarterly Bulletin)#

£m

INDUSTRIAL DETAIL

All banks (amounts outstanding) (sterling and other currencies)		Total to UK residents	of which in sterling	Agriculture, forestry and fishing	Oil and extraction of natural gas	Other energy industries	Water supply	Total manufacturing	Extraction of minerals and ores	Metal manufacturing	Mineral products
Loans and advances	1986 Aug 20	175,961		6,221	2,629	1,079	563	22,376	610	930	881
	End-Nov	189,448		5,996	2,546	965	605	23,883	482	984	915
Acceptances	1986 Aug 20	13,684		71	214	102	—	5,729	145	187	134
	End-Nov	13,543		92	192	111	3	5,593	166	132	155
Total	1986 Aug 20	189,646		6,292	2,842	1,181	563	28,104	755	1,117	1,015
	End-Nov	202,992		6,088	2,738	1,076	608	29,476	648	1,106	1,073
of which in sterling	1986 Aug 20	148,048		6,206	1,061	401	53	22,858	496	793	549
	End-Nov	157,201		6,048	974	387	56	23,251	446	743	590
Changes in total lending in three months ended:											
In sterling	1986 Aug 20	+6,065		+225	−77	−32	+2	+125	+22	−19	−39
	End-Nov*	+9,152		−215	−87	−104	+3	+393	−49	−50	−59
In other currencies†	1986 Aug 20	+1,674		−12	+287	+2	−3	+239	+32	+68	+19
	End-Nov*	+2,178		+14	−106	−34	+17	+727	−80	+24	+81
Group detail (total outstanding) (sterling and other currencies)											
Retail banks	1986 Aug 20	90,203	85,308	6,032	526	185	15	14,012	267	518	432
	End-Nov	94,112	88,897	5,908	563	146	15	14,221	201	454	388

All banks (amounts outstanding) (sterling and other currencies)		Chemical industry	Mechanical engineering	Electrical engineering	Motor vehicles	Other transport equipment‡	Other engineering and metal goods	Food, drink and tobacco	Textiles, ltr, clthg. and footwear	Other manufacturing
Loans and advances	1986 Aug 20	1,462	1,808	2,648	606	1,416	1,747	3,681	1,606	4,912
	End-Nov	1,675	1,868	2,896	675	1,332	1,782	4,531	1,502	5,239
Acceptances	1986 Aug 20	416	230	667	1,002	118	229	1,649	237	725
	End-Nov	441	284	650	1,061	180	195	1,414	222	672
Total	1986 Aug 20	1,878	2,038	3,313	1,608	1,534	1,977	5,331	1,843	5,637
	End-Nov	2,117	2,152	3,547	1,736	1,512	1,977	5,945	1,725	5,990
of which in sterling	1986 Aug 20	1,445	1,749	2,615	1,585	1,312	1,580	4,480	1,632	4,538
	End-Nov	1,475	1,882	2,740	1,687	1,306	1,591	4,908	1,381	4,837
Changes in total lending in three months ended:										
In sterling	1986 Aug 20	−195	−96	+79	+237	−12	−62	+304	+44	−307
	End-Nov	+30	+113	+125	+82	−46	−66	+396	−137	+40
In other currencies†	1986 Aug 20	+5	+42	+12	−7	+10	+24	−6	+2	+37
	End-Nov	+180	−13	+76	−18	+19	+40	+138	+10	+133
Group detail (total outstanding) (sterling and other currencies)										
Retail banks	1986 Aug 20	727	1,214	1,444	656	881	1,215	2,948	1,137	2,602
	End-Nov	906	1,239	1,654	642	785	1,179	2,919	1,032	2,771

All banks (amounts outstanding) (sterling and other currencies)		Construction	Retail motor trades	Other retail distribution	Wholesale distribution	Hotels and catering	Air transport	Other transport	Postal serv. and telecommunications
Loans and advances	1986 Aug 20	5,457	2,318	6,686	8,232	3,797	385	2,952	263
	End-Nov	5,485	2,332	6,297	9,129	3,988	451	3,038	289
Acceptances	1986 Aug 20	254	198	920	1,624	83	18	67	12
	End-Nov	190	154	896	1,520	82	6	74	15
Total	1986 Aug 20	5,711	2,517	7,606	9,858	3,880	403	3,019	274
	End-Nov	5,675	2,488	7,192	10,649	4,070	457	3,113	304
of which in sterling	1986 Aug 20	5,284	2,351	6,724	5,201	3,581	210	2,130	124
	End-Nov	5,253	2,340	6,536	5,605	3,751	244	2,152	162
Changes in total lending in three months ended:									
In sterling	1986 Aug 20	+136	+108	−85	−281	+141	−65	−24	−7
	End-Nov	−31	−11	+112	+394	+170	+34	+22	+28
In other currencies†	1986 Aug 20	−50	+22	+28	−80	−15	−20	−22	−148
	End-Nov	−26	−27	+60	+176	+6	+11	+28	−5
Group detail (total outstanding) (sterling and other currencies)									
Retail banks	1986 Aug 20	4,019	1,554	4,838	2,779	2,572	112	1,334	60
	End-Nov	4,089	1,506	4,942	3,023	2,714	142	1,345	98

All banks (amounts outstanding) (sterling and other currencies)		Building societies§	Investment and unit trusts	Insurance companies and pension funds	Leasing companies	Other financial¶	Central and local government services	Property companies	Hiring of movables	Other services	Bridging finance for house purchase	Other house purchase¶	Other advances to persons
Loans and advances	1986 Aug 20	2,782	3,642	2,948	6,099	19,568	1,422	8,118	779	21,102	901	22,943	22,609
	End-Nov	3,356	3,628	2,873	6,759	22,087	1,358	8,320	858	13,566	927	24,082	23,301
Acceptances	1986 Aug 20	—	75	52	1,684	2,519	7	8	84	502	—	—	—
	End-Nov	—	98	44	983	2,679	22	9	61	370	—	—	—
Total	1986 Aug 20	2,782	3,717	3,000	7,783	22,087	1,429	8,126	863	21,665	901	22,943	22,609
	End-Nov	3,356	3,725	2,917	7,742	24,766	1,380	8,329	919	14,135	927	24,082	23,301
of which in sterling	1986 Aug 20	2,782	1,297	1,651	7,459	10,492	1,056	7,550	833	12,026	901	22,926	22,520
	End-Nov	3,355	1,099	1,758	7,368	12,093	1,092	8,090	875	11,376	926	24,082	22,144
Changes in total lending in three months ended:													
In sterling	1986 Aug 20	+254	+96	+394	+314	+541	−103	+354	+35	+1,197	+60	+1,707	+977
	End-Nov	+572	+302	+107	−82	+2,510	−52	+1,130	+42	−650	+25	+1,136	+594
In other currencies†	1986 Aug 20	—	−287	−113	+60	+464	−16	+11	−1	+1,285	—	−6	+38
	End-Nov	—	−410	−257	+26	−396	−16	+46	+12	−7,385	+1	+2	—
Group detail (total outstanding) (sterling and other currencies)													
Retail banks	1986 Aug 20	410	1,200	957	2,091	2,247	362	3,806	311	7,790	889	15,257	16,822
	End-Nov	601	1,257	1,038	2,244	2,330	372	4,182	334	7,570	898	16,381	17,316

* Shows the change in total lending from mid-August to end-November. Changes in the reporting population to end-November reduced total sterling lending by some £30m (net) and lending in other currencies by some £3m.
† Adjusted for exchange rate effects.
‡ Includes lending under the DTI special scheme for domestic shipbuilding.
§ Includes sterling time deposits placed with, and holdings of sterling certificates of deposit issued by, building societies.
¶ Figures prior to February 1986 are affected by revised treatment of lending previously recorded as "other" house purchase now included in "other" financial.
\# Comprises loans, advances and acceptances. Loans and advances include lending under the DTI special scheme for domestic shipbuilding, secured money placed with Stock Exchange money brokers and gilt-edged market makers and sterling time deposits placed with, and holdings of sterling certificates of deposit issued by, building societies.

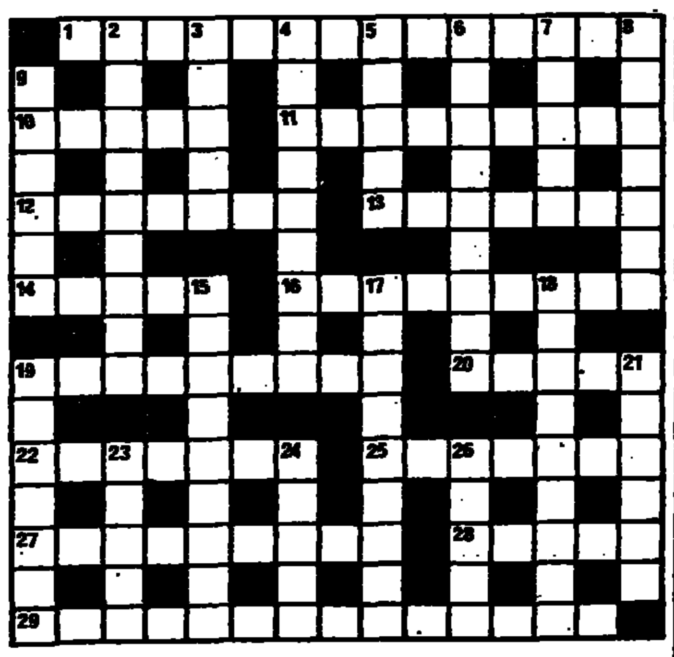
FT UNIT TRUST INFORMATION SERVICE

AUTHORISED UNIT TRUSTS

INSURANCES

FT CROSSWORD PUZZLE No. 6,228

GRIFFIN



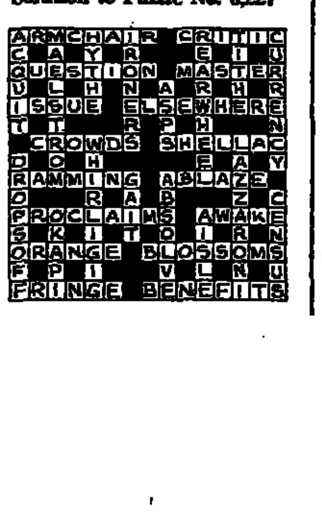
ACROSS

1 Study during revival of preliminary survey (14)
10 Search for luncheon voucher dropped in some water (5)
11 Barker is to get back by mid-afternoon (9)
12 For a joke plastered glue all round someone's trunks! (7)
13 Train engineers return piece of equipment by the end of June (7)
14 Old-fashioned theologian scoffed when brought in (5)
16 Travelling in modified train, return it by half-nine (9)
19 I dropped in about tenpence, being sorry (9)
20 Back copies, including one in colour (5)
22 Book player standing on the sidelines (7)
25 Satisfy, by including some vegetables, the primate (7)
27 Thwarted, hurried back inside the plant (9)
28 Detailed to judge the importance of foolish people (5)
29 The girl the lady adopted quite cheerfully (14)

DOWN

2 Inform Nigel then move (9)
3 After work there's time for some entertainment (5)
4 Ruined owner to gain new man from Oslo (9)
5 Bury first introduced rent fixing (5)
6 Lacking in initiative the man changes gear without (9)
7 Late actor against being in around nine (5)
8 Navy egghead is sitting in seat, drunk yet sincere (7)
9 Went ahead after dad turned rotten (6)
15 Hinder a male cleaner (9)
17 Man for cold region who has antelope in rice, perhaps (9)
18 A friend accepts several pairs for valuation (9)
19 Pop on solar switch which protects one from the sun (7)
21 Disinclined to give a leading vegetarian tongue (6)
23 Drink—it's what the crooner does when about 50! (5)
24 Rub out "Elizabeth gets seasick" (5)
26 Spot the fish I dropped (5)

Solution to Puzzle No. 6,227



AUTHORISED UNIT TRUST & INSURANCES

Canada Life Group
2-6 High St, Potters Bar, Herts — P Bar 51122

Equity Gth Sept 29	1.508			
Retirement	5.361			
Individual Pension—Distribution				
Managed Pen Fund	302.5	318.5	+9.3	4.9
Property Pen Fund	132.1	139.1	-0.4	
Index-linked Pen Fd	128.2	135.0	+2.5	
Series C Pension—Accumulation				
International Pen Fd	191.2	201.3	+1.3	
Managed Pen Fd	173.2	182.4	+5.3	
Property Pen Fd	126.2	132.9	-0.4	
Index-linked Pen Fd	124.7	131.3	+2.4	
Gilt & Fxd Int Pen Fd	145.4	153.1	+0.7	
Equity Pen Fd	195.6	205.9	+9.1	
Managed Funds				
Managed	180.8	190.4	+1.3	
Property	128.0	134.8		
Gilt & Fxd Interest	134.0	141.1	+0.5	
Index-linked	111.5	117.4		
Equity	200.8	211.4	+1.8	2.2
Cash	139.0	146.4		
Midland Bank Unit Tst	195.7	206.1	+1.3	
Midland Bk Managed	195.7	206.1	+1.3	
Midland Bk Internatl	228.2	240.3	+0.9	

Cannon Assurance Ltd
1 Olympic Way, Wembley HA9 0NB — 01-902 8876

2nd Series Life Accumulation			
Equity	346.1	366.2	-0.5
High Income	298.1	315.4	-1.5
Property	216.6	229.2	-0.1
Managed	252.9	267.6	-0.2
Deposit	176.4	186.7	—
Gilt	177.3	187.6	-0.1
American	251.7	266.3	-0.3
International Money	199.9	211.5	+1.4
Index	108.3	114.6	-0.3
Far East	209.7	221.9	+3.0
Global	104.1	110.2	+0.3
European	109.6	116.0	+0.7
Japan	113.1	119.7	+1.9
Residential Property	96.7	102.3	—
2nd Series Pension Accumulation			
Equity	550.0	582.0	-4.3
High Income	353.9	374.5	-2.0
Property	304.1	321.8	—
Managed	365.2	386.5	-0.3
Deposit	261.9	277.1	—
Gilt	251.0	265.6	+0.2

Crusader Insurance Plc
Reigate, Surrey RH2 8BL — 07372 42424

Managed Performance	103.3	109.3	-0.1
Performance Plus	104.3	110.4	+0.1
With Profits Perform.	97.2	102.9	
UK Opportunity	103.2	109.2	-0.6
European Opportunity	112.4	118.9	+0.5
Nth American Opp	102.2	108.1	-0.1
Far Eastern Opp.	102.5	108.5	+0.9
Gwth Prp Ser 1 Jan 7	141.8	151.0	
Gwth Prp Ser 2	97.0	102.6	
Fixed Interest	96.5	102.1	-1.2
Cash	97.2	102.9	+0.2
Managed Pens (Nov 18)	291.68	299.19	

Devonshire Life
29 Glasshouse St, W1R 5RG — 01-434 3511

Managed	115.6	121.8	—
World Growth	99.4	104.7	-0.2
UK Equity	119.9	126.4	-0.4
UK Small Companies	118.5	124.9	+2.6
European	103.9	109.4	+0.2
Far Eastern	159.5	168.0	-2.0
Nth American	96.0	101.1	+0.2
Fixed Interest	104.5	110.1	+0.2
Index Linked Stks	99.1	104.4	-0.7
Money	100.3	105.7	—
Pen Managed	128.0	134.9	—
Pen World Growth	101.5	106.9	+0.4
Pen UK Equity	138.3	145.7	-0.6
Pen UK Small Cos	130.1	137.1	+3.2
Pen European	104.9	110.6	+1.8
Pen Far Eastern	211.9	223.2	+0.6
Pen Nth American	93.4	98.4	—
Pen Fixed Interest	105.8	111.5	-1.5
Pen Index Lnkd Stks	99.4	104.7	-0.7
Pen Money	104.6	110.2	—

Eagle Star Insurance Co Ltd
Bath Road, Cheltenham GL53 7LQ — 0242 521311

Secure Fund	104.1	109.6	—
Blue Chip Fund	128.6	135.4	—
Performance Fund	154.9	163.1	—
Adventurous Fund	151.4	159.4	—
Pensions Secure	95.2	100.3	—
Pensions Blue Chip	98.0	103.2	—
Pensions Performance	98.8	104.1	—
Pensions Adventurous	100.0	105.3	—
Pensions With Profits	97.3	102.5	—

INSURANCE, OVERSEAS & MONEY FUNDS

TSB Life Ltd
PO Box 3, Keens Hse, Andover SP10 1PG 0264 62188

Managed Fund	150.1	158.1		
Property Fund	117.9	124.2		—
Fixed Int Fund	127.6	134.4	+1.1	—
Money Fund	119.1	125.4		—
Equity Fund	198.0	208.5	−0.4	—
TSB Pensions Ltd.				
Managed Pension	423.5	445.8	+3.5	—
Deposit Pension	115.5	121.7		—

Target Life Assurance Co. Ltd.
Target House, Gatehouse Road, Aylesbury, Bucks
Aylesbury (0296) 394000

Managed	409.9	431.5	+0.4	—
Property	261.4	275.2		—
Fixed Int.	159.4	167.8	+2.7	—
UK Equity	482.5	507.9	+2.2	—
Int. Equity	336.5	354.3	+1.2	—
Deposit	157.6	165.9		—
Managed Property	218.5	230.0	+6.5	—
American Eagle	114.5	120.6	−0.5	—
Technology	96.6	101.7	+1.4	—
Worldwide Income	177.8	187.2	+0.2	—
Pacific	178.7	188.2	+0.4	—
Australian	91.9	96.8	+2.0	—
Japan	285.1	300.2	+0.6	—
Commodity	107.6	113.3	+0.5	—
Gold	137.6	144.9	+1.9	—
Financial	204.9	215.7	+0.1	—
Income	236.1	248.6	+1.0	—
Special Situations	215.2	226.5	+2.5	—
Preference	136.1	143.3		—
Managed Currency	96.8	101.9	+0.4	—
European Spec. Sits.	199.8	210.4	+3.6	—
Sterling	103			—
Residential Property	98.1	103.3	+0.1	—
Pension Funds				
Managed Pension	1224.3	1288.6	+5.7	—
Cit. Pens.	347.7	366.0	+2.9	—
Property Pens.	616.5	649.0	+13.2	—
Equity Pens.	590.6	621.7	+7.3	—
Index-L. Pens.	123.7	130.3	+0.2	—
Gov. Pen.	258.7	272.4		—
Leicester Retirement	155.5	163.7		—

Prices quoted are for Accumulation units

Teachers' Assurance Company Ltd
12 Christchurch Rd, B'mouth BH1 3LW 0202 291111

The Porchester Group
91 Wimpole Street, London W1M 7DA 01-493 9090

Porchester Managed Funds				
Albany	116.8	122.9	+0.1	—
Cornhill	104.5	110.0	+0.5	—
Irish Life	109.0	114.8		—
Royal Heritage	99.9	105.2		—
Schroder	97.8	102.9		—
Skandia	118.4	124.6	+0.3	—
Target	119.7	126.0	+0.2	—
Trident	113.3	119.4	−0.1	—
Porchester Managed Pension Funds				
Albany	127.1	133.7	+0.2	—
Schroder	98.7	103.8		—
Skandia	124.0	130.5	+0.4	—
Target	110.2	116.3		—

Managed by Porchester Securities Limited

Sharp (Albert E.) & Co
12 Newhall Street, Birmingham B3 3ER 021-236 5801

Non-Clerical Med.	113.9	119.9	+0.8	—
Pens. Non-Schroder	464.9	489.5	−1.3	—

Towry Law & Co
57 High St, Windsor, SL4 1LX 0753 868244

Clerical & Medical	100.0	105.3	+0.5	—
Guardian Royal Exch.	96.9	102.0	−0.9	—
M&G Ass (Life)	111.9	117.8	+0.2	—
M & G Ass (Pens)	127.9	134.6		—
Norwich Union Asst Mgt.	54.1	57.0	+0.5	—
Royal Life (UniLinked)	101.5	106.8		—
Scot Equitable (Life)	146.7	154.5	+1.2	—
Scot Equitable (Pens)	201.4	106.7	+0.8	—
Scot Mutual (Life)	152.0	160.0		—
Scot. Mutual (Pens)	138.2	145.5		—
Vanbrugh Life Ass.	119.0	125.3	+0.7	—

J. D. Ward & Co Ltd
55 Lincoln's Inn Fields, WC2A 3LX. 01-242 2263

Target Mngd Bond	184.0	193.7	+0.3	—
Target Mngd Pension	122.3	128.8	+0.2	—
Albany Mngd Bond	161.3	169.8		—
Albany Mngd Pension	202.8	213.4		—

Yorkshire & Lancashire Investment Mgt.
2 Parson Lane, Clitheroe, BB7 2JN 0200 28066

MANAGEMENT SERVICES

OFFSHORE AND OVERSEAS

Money Market Trust Funds

Money Market Bank Accounts

NOTES

Prices are in pence unless otherwise indicated and those designated $ with no prefix refer to U.S. dollars. Yields % (shown in last column) allow for all buying expenses. Prices of certain older insurance linked plans subject to capital gains tax on sales. a Offered prices include all expenses. b Today's prices. c Yield based on offer price. d Estimated. g Today's opening price. h Distribution free of UK taxes. p Periodic premium insurance plans. s Single premium insurance. x Offered price includes all expenses except agent's commission. y Offered price includes all expenses if bought through managers. z Previous day's price. ¶ Guernsey gross. ø Suspended. ◆ Yield before Jersey tax. † Ex-subdivision. ‡‡ Only available to charitable bodies. ◆ Yield column shows annualised rates of NAV increase. xd ex dividend.

TRADITIONAL OPTIONS

3-month call rates

Industrials	p		p
Allied-Lyons	27	NEI	8
Amstrad	15	Nat West Bk.	48
BAT	35	P & O Dfd.	45
BOC Grp.	28	Plessey	16
BSR	11	Polly Peck	16
BTR	26	Racal Elect.	15
Babcock	16	RHM	24
Barclays	42	Rank Org Ord.	45
Beecham	40	Reed Intnl	25
Blue Circle	55	STC	13
Boots	22	Sears	12
Bowaters	32	TI	40
Brit Aerospace	42	TSB	8
Brit. Telecom	17	Tesco	36
Burton Ord	26	Thorn EMI	42
Cadburys	17	Trust Houses	15
Charter Cons.	24	Turner Newall	18
Cowm Union	28	Unilever	140
Courtaulds	26	Vickers	36
FNFC	17	Wellcome	17
Gen Accident	75	**Property**	
Gen Electric	15	Brit Land	16
Glaxo	85	Land Securities	38
Grand Met	40	MEPC	32
GUS 'A'	85	Peachey	24
Guardian	75	**Oils**	
GKN	24	BOM	$3\frac{1}{2}$
Hanson Tst.	10	Brit Petroleum	50
Hawker Sidd.	42	Burmah Oil	32
ICI	75	Charterhall	4
Jaguar	42	Premier	$3\frac{1}{2}$
Ladbroke	32	Shell	65
Legal & Gen	20	Tricentrol	8
Lex Service	32	Ultramar	17
Lloyds Bank	38	**Mines**	
Lucas Inds	46		
Marks & Spencer	18	Cons Gold	62
Midland Bk.	48	Lonrho	22
Morgan Grenfell	26	Rio T Zinc	62

A selection of Options traded is given on the London Stock Exchange Report Page.

COMMODITIES AND AGRICULTURE

Windwards lead banana recovery

By Canute James in Kingston

AFTER SEVERAL years of setbacks from natural disasters and restructuring of their industries, Caribbean banana producers have firmly re-established themselves as the dominant force on the British market.

Preliminary figures indicate that shipments by the five islands—the Windwards group and Jamaica—reached 220,000 tonnes last year, about two-thirds of British consumption, and 44,000 tonnes more than 1985 shipments.

But the growth has not been evenly spread. While Jamaica is still far short of meeting the 150,000 tonnes per year market which the Government says the Island is guaranteed, production in the Windward Islands has grown dramatically.

Exports from the four islands—St Lucia, St Vincent, Dominica and Grenada—were affected by a series of hurricanes seven years ago, but they managed to lift output in 1985 to 164,000 tonnes.

The Windward Islands Banana Association had forecast last year's exports at 175,000 tonnes. A storm in September devastated 15 per cent of the farms on St Lucia and 55 per cent on St Vincent, raising fears that the target would not be achieved.

By the end of that month, however, shipments to Britain by the Windwards for the year had reached 149,000 tonnes, and by the year end they had advanced to 200,000 tonnes.

St Lucia, the group's largest producer, accounted for more than a half of last year's shipments by the group, after seeing exports grow by 20 per cent in 1984 and by the 23.5 per cent in 1985. Last year's shipments were the largest ever by the island.

Dominica which produced 36,000 tonnes in 1985 shipped about 51,000 tonnes last year, while Grenada, the smallest producer, shipped about 8,500 tonnes, 500 tonnes more than 1985.

The destruction caused by the storm forced St Vincent's exports down to an estimated 38,000 tonnes, 2,000 tonnes less than 1985.

Although there has been some concern in the Windwards industry about possible over-production, officials feel it is a better risk to encourage maximum output, rather than set a ceiling and not being able to satisfy all market opportunities.

According to Geest Industries, which markets the Windwards bananas and which—along with Fyffes—dominates the UK market, over-production is not yet a problem. Company officials say that all the fruit that is being produced is being sold. Industry officials in St Lucia say some fruit is being sent to other countries in Europe.

While the Windwards are celebrating dramatic growth, Jamaica is still struggling to achieve the level of shipments of seven years ago.

The island's exports to Britain averaged 150,000 tonnes a year up to 1970, and fell to 70,000 tonnes before 1980 when a hurricane destroyed 80 per cent of the farms. Shipments that year fell to 33,000 tonnes, and slipped further to 12,000 tonnes in 1985. The Agriculture Ministry had forecast exports last year at 30,000 tonnes, but Dr Percival Broderick, the Agriculture Minister, said recently he expected this not to have exceeded 21,500 tonnes.

Industry officials say output since 1981 has been affected by the Government's decision to restructure the industry, reducing the state's involvement and handing key areas, such as marketing, over to farmers.

The restructuring forced several thousand marginally efficient farmers out of the industry, and the officials claim that those involved are now achieving yields of just under 20 tonnes per acre—high for Jamaica.

In an effort to standardise varieties, the Government imported several million plants, but a quarter of these were discovered to be mutant, destroying the island's hope for a rapid recovery of exports.

Agriculture Ministry officials say the 150,000 tonnes per year market which Jamaica is guaranteed in Britain is worth $140m, but they doubt that this can be achieved within the next five years.

Despite these setbacks, the industry is hoping for even greater things. Dr Broderick said Jamaica had been receiving several requests for Bananas from many European Community countries, but the island could not meet the demand at current production levels.

On the basis of these requests, and the opportunities which Jamaica has on the British market, the Minister said, the island could dispose of 200,000 tonnes per year.

Brussels likely to seek grain support crackdown

BY TIM DICKSON IN BRUSSELS

A CRACKDOWN on guaranteed "intervention" purchases of wheat and a tough new oils tax are likely to be among controversial price proposals announced by the European Commission next month.

They will represent the latest attempt by the Commission to curb the Community's spiralling food production and will be designed to build on the decisions of the December Farm Council to cut milk quotas by 10 per cent over the next two years and to reduce the costs of beef "intervention."

Speculation in Brussels at the moment centres particularly on plans for the cereals sector, which escaped Ministers' attention last month but which is projected to create huge surpluses by the end of the decade. At the moment there are roughly 16m tonnes of unwanted cereals in EEC stores.

Strong rumours have been circulating in recent months that as part of this year's price package the Commission will double the so-called co-responsibility levy — a tax on producers — from its current level of 3 per cent to 6 per cent. Some increase in the levy is still possible but opinion inside the Commission over the past few days is understood to have shifted towards limiting the period for EEC intervention purchases to three months of the year. At the moment intervention runsf rom October to April — itself a restriction agreed at the last "price fixing" — but the Commission's aim is to cut this back to February, March and April.

Mr Frans Andriessen, the EEC Farm Commissioner, is known to be particularly keen on this proposal, which would continue his declared policy of attacking the principle of automatic intervention. Commission *officials* believe the move plus other restrictions on the quality of wheat bought by the EEC, would force traders to look more aggressively for new market outlets.

The co-responsibility tax — which Mr Andriessen *also* favours philosophically — has been the target of fierce criticism from lobbyists who claim that it is unfair, distorts competition and violates the principle of equal treatment between member states. A decision to leave it alone would be greeted with relief by

The cost of supporting the oils and fats regime, meanwhile, is also causing a major headache for policymakers in Brussels and seems set to assume even greater proportions when the full impact of *Spanish* and Portuguese membership of the Community is felt in the sector after 1991.

At the moment oilseed crushers receive a deficiency payment which bridges the gap between a fixed EEC target price and the European market price. Unlike other sectors which are protected by import levies, the European price is closely related to the world price, *currently* very depressed, with the result that the costs of the deficiency payments have been mounting.

The Commission's idea of a "stabilisation system" would represent a tax on oil when the world price was *low and* a rebate when it was high. The plan is part of the Commission's overall strategy to try to find now mechanisms to control agricultural spending.

The Commission is due to have its first full discussion of the price package on January 28.

Court rejects aid complaints

BY TIM DICKSON

THE EUROPEAN Court of Justice yesterday rejected complaints by a French agricultural group that West German aid for farmers had damaged its business.

The enterprise—Groupement Agricole d'Exploitation en Commun (GAEC)—took up the case against the European Commission and the Council of Ministers for allowing the West German Government in June 1984 to provide help for its farmers in the form of relief for 5 per cent of their VAT burden. The scheme started in July of that year and runs to the end of 1988.

Yesterday's judgment is significant because it had been expected to give clear guidance on the legality of this particular state aid at a time when there are growing signs in Brussels of increased use of national resources to support the Community's farmers.

In fact, the court's ruling says little about the legitimacy of the West German action as such, concentrating on the French claim that the aid enabled German farmers to reduce their prices and "massively increase" their exports to France of beef, milk and poultry. In this respect the judges found that GAEC was not able to prove a link between the "critical act" and the damage which was claimed.

Under the terms of the Treaty of Rome the Council under Article 42 can approve such aids providing their decision is unanimous. In this case the VAT relief was sanctioned to compensate German farmers from the loss of revenue which they would suffer following the agreement in 1984 progressively to dismantle the system of positive monetary compensatory amounts (effectively subsidies on German exports and taxes on imports into Germany to mitigate the effect of currency differences).

Oman to back Opec with another production cut

BY LUCY KELLAWAY

OMAN YESTERDAY joined the expanding group of non-Opec producers which have announced cuts in oil production in support of Opec's efforts to prop up oil prices.

Mr Bin Ahmed Al-Shanfari, the Oil Minister, said that Oman will cut 5 per cent from its current oil production of 550,000 barrels a day starting from the beginning of next month. Oman has already reduced its output once in the past few months in sympathy with Opec from an original level of 600,000 barrels a day.

The move by Oman follows a 7.5 per cent production cut by Norway announced earlier this week, and a statement from Egypt on Wednesday that it would maintain and perhaps increase production cuts already implemented.

Yesterday's announcement lent further encouragement to prices, which were already supported by the cold weather. In London the price of Brent crude for delivery in February moved up by about 20 cents a barrel to a high of $18.90. Prices were towed up by rises on the New York Mercantile Exchange where West Texas Intermediate crude had risen 25 cents by the early afternoon to $19.40 a barrel, boosted by forecasts of freezing weather spreading across the US.

"If the cold weather persists the stock overhang might have been eliminated by February, taking some of the pressure off Opec by the spring," Mr Humphrey Harrison, oil analyst at County Securities said yesterday. However, he warned that the new Opec quotas were already looking fragile, and that the chances were good that prices had reached a peak.

Trade war move angers US grain council

By Nancy Dunne in Washington

THE US feed grains council, which has helped to advise the Administration on the US-EEC agricultural trade dispute, is putting pressure on the Reagan Administration to accept no settlement which includes any element of industrial compensation.

In a letter to Mr Clayton Yeutter, the US trade representative, the council said it was "surprised and dismayed at this apparent change in your position."

The letter was in response to remarks by Mr Yeutter carried in the Financial Times which signalled that the US would accept a small amount of compensation on the industrial side but would insist on trade advantages worth the $400m (£265m) in sales the US says it lost when Spain entered the EEC.

Togo keeps faith in phosphate project despite price plunge

BY PETER BLACKBURN IN LOME

IN DEFIANCE of a depressed world market and an uncertain future the West African state of Togo is continuing its efforts to shake the dust off a long-stalled phosphate processing project.

The delay has escalated to an estimated $500m the cost of the project, which is to be located at Kpeme, 35 kms east of the capital, Lome.

The scheme involves the development of a new phosphate mine at Dagbati and construction of a 1,000-tonne-a-day phosphoric acid and a 1,000-tonne-a-day granulated superphosphate plant.

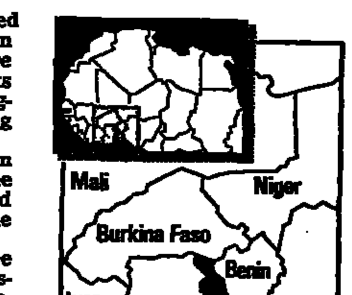
Little progress has been made since feasibility studies financed by the World Bank's International Development Association were completed by the UK's Chem Systems over two years ago.

The studies recommended a joint venture, with foreign partners providing project finance and guaranteeing long term markets.

The Togolese Government was encouraged to launch an ambitious public investment programme after world phosphate prices jumped fourfold in 1974.

Phosphate production rose by nearly 75 per cent to 2.6m tonnes between 1970 and 1974 as capacity was increased to 3.6m tonnes, making Togo the world's sixth largest producer. Although Togo represents only 2 per cent of world output phosphates are the country's main source of wealth, providing nearly 40 per cent of export earnings in 1985.

By the end of the 1970s, however, the phosphate market had gone into reverse and Togo found itself in serious financial difficulties. The Government negotiated the first of several IMF agreements and debt reschedulings in 1979.



Phosphate exports fell to 2m tonnes in 1983 from 3m in 1979. Although exports recovered to 2.8m tonnes in 1984 they fell back to 2.4m in 1985, according to figures from the State owned Office Togolais des Phosphates (OTP). Little improvement is forecast in 1986, or, indeed, until the end of the 1980s.

The main points in favour of the proposed processing scheme are:

● It would improve the country's balance of payments deficit and yield some $60m a year after 10 years production.

● Recovery in world demand is forecast, especially in Latin America, in the 1990s.

● It fits in with the trend towards local processing, of raw materials and higher added value of exports.

● It would facilitate the development of lower grade reserves as Togo's high grade reserves decline.

The optimism expressed in the feasibility studies has failed to dispel doubts about market prospects, however. Initial contacts with potential Brazilian and Indian partners have apparently failed to lead to any firm commitments. OTP would not comment on the project's progress.

Critics point to a number of problems:

● The project would sharply increase the country's debt servicing, which is already absorbing nearly half annual export earnings.

● It would take up more than half the country's investment budget over several years.

● Suppression of fertiliser subsidies as part of the World Bank's trade liberalisation policy will raise prices and depress local demand.

● There are doubts about Togo's ability to compete with the Industries Chimiques du Senegal (ICS) phosphoric acid and fertiliser complex which cost less than half the price to build and started production in mid-1984. With Nigeria, the Ivory Coast and Cameroon among its shareholders ICS is well established in the West African market.

● There is concern, especially in the important EEC market, about the high level of cadmium in Togolese phosphates and its toxic effect on food crops.

Observers point out, however, that the ICS project went ahead even though Senegalese phosphates contain 255 grammes of cadmium per tonne—60 per cent more than Togolese rock.

Although the phosphate boom years of the 1970s are now receding into history the half-empty luxury hotels and heavy debts that sprung up during this period are still a poignant reminder.

LONDON MARKETS

COFFEE futures plumbed 16-month lows on the London futures market yesterday as the latest wave of bearish pressure continued. A £20 fall took the March position to £1,557.50 a tonne and *extended to more than £70* the decline sparked off by last week's announcement of the reopening of Brazilian export registrations. Traders estimate, however, that so far registrations have reached only about 440,000 bags (60 kilos each), a disappointing figure considering that Brazil had been out of the market for five or six months. Sterling's rally against the *dollar added to* the downward pressure on coffee prices and had a similar effect at the London Metal Exchange, where a general decline was headed by cash lead's £12.50 fall to £291.50 a tonne. The continued easing *of* a nearby supply squeeze was illustrated by the re-establishment of cash lead's discount to the three months' position after being at a premium for some time.

...*LME prices supplied by* Amalgamated Metal Trading.

ALUMINIUM

	Unofficial close (p.m.) £ per tonne	+ or —	High/Low
Cash	783-4	—4.0	790/789.5
3 months	794-5	—3.25	800/796

Official closing (am): Cash 789-90 (791.5-2): three months 799-800 (801-1.5); settlement 790 (792). Final Kerb Close: 796.5-7. Turnover: 8775 (6,650) tonnes.

COPPER

Grade A	Unoffic'l close	+ or —	High/Low
Cash	901.5-2.5	—5.5	906/905
3 months	923.5-4	—8.0	930/923.5

Official closing (am): Cash 905-5.5 (912-2.5); three months 927-7.5 (934.5-5); settlement 905.5 (912.5). Final Kerb Close: 8234-4.5.

Standard			
Cash	878-9	—1.5	—
3 months	900-2	—7.5	—

Official closing (am): Cash 879-80 (883-5): three months 904-5 (913-3.5): settlement 880 (885). US Producer prices 64.00-67.50 cents per pound. Total turnover: 11,250 (12,650) tonnes.

LEAD

	Unofficial close (p.m.) £ per tonne	+ or —	High/Low
Cash	291-2	—12.5	293/293
3 months	293-3.5	—7.5	299/293

Official closing (am): Cash 293-3.5 (298-9.5); three months 293-3.5 (298-9.5); settlement 293.5 (298.5). Final Kerb Close: 294-4.5. Turnover: 4,200 (8,700) tonnes. US Spot: 24.00-29.00 cents per pound.

NICKEL

	Unofficial close (p.m.) £ per tonne	+ or —	High/Low
Cash	2300-10	—5.0	—
3 months	23 55-60	—3.5	2375/2360

Official closing (am): Cash 2315-20 (2340-50): three months 2370-5 (2395-400): settlement 2320 (2350). Final Kerb Close: 2345-55. Turnover: 798 (518) tonnes.

ZINC

High grade	Unofficial close (p.m.) £ per tonne	+ or —	High/Low
Cash	490-0.5	—3.75	491.5/488
3 months	488-8.5	—4.25	494/488

Official closing (am): Cash 492-3 (496-6); three months 491-1.5 (493.5-4); settlement 493 (496). Final Kerb Close: 486.5-8.5. Turnover: 8050 (4150) tonnes. US Prime Western: 41.00-44.75 cents per pound.

TIN

Kuala Lumpur Tin Market: Close 17.19 (17.27) ringgit per kg. Down 0.08 ringgit per kg.

GOLD

[illegible] fell $3¾ to $415¼-415¾ on the [illegible] bullion market yesterday, reflecting disappointment that the metal had not made greater gains on the back of the weak dollar. Gold opened at $416-416½ and was fixed at $415.00 in the morning, and $416.25 in the afternoon. It touched a peak of $416¾-416¾ and a low of $412½-413.

GOLD BULLION (fine ounce) Jan. 15		
Close	$415¼-415¾	(£275¼-276)
Opening	$416-416½	(£277-277½)
M'n'g fix	$415.00	(£276.298)
Aft'n'n fix	$416.25	(£276.119)

GOLD AND PLATINUM COINS		
Am Eagle	$427½-430½	(£284-286)
Mapleleaf	$425½-430	(£282¾-285¾)
Kr'g'rnd	$415-417	(£275¾-277)
½ Krug	$205¼-216¾	(£137¼-144)
¼ Krug	$103¼-111¼	[illegible]
Angel	$423½-427½	(£281½-284)
1/10 Angel	[illegible]	[illegible]
New Sov.	$97-99	(£64½-65¾)
Old Sov.	$98½-100	(£65½-66½)
$ 20 Eagle	$430-470	(£285¾-312¼)
Noble Plat	$544-554	(£361½-368)

SILVER

Silver was fixed 4.15p an ounce lower for spot delivery in the London bullion market yesterday at 369.75p. US cent equivalents of the fixing levels were: spot 556.7c, down 1.2c; three-month 564.8c, down 1.1c; six-month 573.05c, down 0.95c; and 12-month 589.45c, down 0.9c. The metal opened at 371-373p (557-559c) and closed at 369½-371½p (557-559c).

SILVER per troy oz	Bullion Fixing Price	+ or —	L.M.E. p.m. Unoffic'l	+ or —
Spot	369.75p	—4.15	370.5p	—
3 months	379.65p	—4.15	380.5p	—
6 months	389.35p	—4.25	—	—
12 months	406.90p	—4.50	—	—

LME—Turnover: 28 (0) lots of 10,000 oz.

Three months final kerb 378-80p.

SOYABEAN MEAL

Prices were again steady with support from good commercial buying, reflecting firmer cash and Chicago markets, reports Muirpace.

Sales: 105 (289) lots of 20 tonnes.

	Y'stard'ys close	+ or —	Business done
	£ per tonne		
Feb	131.5-134.5	+1.55	—
April	131.8-122.0	+1.10	—
June	125.5-124.5	+1.25	125.0
August	121.8-122.0	+0.75	121.00
October	122.5-125.5	+0.50	—
Dec	125.8-126.0	+1.25	125.5-125.0
Feb	125.0-128.5	+0.25	—

INDICES

REUTERS

Jan.15	Jan.14	M'th ago	Year ago
1591.5	1594.5	1645.7	1854.0

(Base: September 18 1931=100)

DOW JONES

Dow Jones	Jan. 14	Jan. 13	M'th ago	Year ago
Spot	116.14	115.59	—	128.79
Fut	116.51	115.79	—	128.98

(Base: December 31 1931=100)

MAIN PRICE CHANGES

In tonnes unless otherwise stated.

	Jan. 15 1987	+ or —	Month ago
METALS			
Aluminium			
Free Market	$1250/275	+5	$1260/325
Copper			
Cash Grade A	£902	—5.5	£931.75
3 mths	£923.75	—8	£952.75
Gold Troy oz	$415.5	—3.75	$393
Lead Cash	£291.5	—12.5	£372
3 mths	£293.25	—7.5	£333.75
Nickel			
Free Mkt	158/178c	—1	160/188c
Palladium oz	$123.50	—3.4	$118.15
Platinum oz	$529.50	—8.25	$475.75
Quicksilvert	$150/160	—5	$155/165
Silver troy oz	369.75p	—4.15	376.25p
3 mths	379.65p	—4.15	384.85p
Tin			
free Mkt	$4550/680	—5	£4460/580
Tungsten	$41.44		$47.54
Wolfram 22.8lb	$35/45		$32/42
Zinc	£490.25	—3.75	£567
3 mths	£488.25	—4.25	£552.25
producers	$820		$870
Coconut (Phil)	$398x	—15	$415
Palm Malayan	$330w	—2.5	$146
Copra (Phil)	$250		$260
Soyabean (U.S.)	$142		$114
GRAINS			
Barley Fut. Mar.	£112.75	+0.4	£114.00
Maize	£143.00		£142.00
Wheat Fut. Mar.	£113.50	+0.3	£113.10
No. 2 Hard Wint.	‡		‡
OTHERS			
Cocoa Ft. May	£1402.5	—5	£1489.5
Coffee Ft. Mar.	£1557.5	—20	£1765.5
Cotton A Ind.*	65.60c		61.15c
Gas Oil Mar.	$165.5	—1	$135.5
Rubber (kilo)	66.75p	—0.5	68p
Sugar (raw)	$164.5x	+4	[illegible]
Wooltops 64s	421p kilo	—6	429p kilo

‡ Unquoted. †2Per 75-lb flask. c Cents a pound. * Cotton outlook. x Jan-Feb. z Dec-Jan. w Feb. y Feb-March.

COFFEE

The slow and long decline in prices continued as new contract lows were breached by mid-afternoon. Persistent commission house selling kept levels under pressure all day with sporadic price fixing occasionally lifting levels slightly, reports Drexel Burnham Lambert.

COFFEE	Yesterday close	+ or —	Business Done
Jan	1550-1555	—30.0	1580-1560
Mar.	1555-1560	—20.0	1585-1548
May	1585-1590	—14.0	1605-1575
July	1610-1620	—12.5	1630-1605
Sept.	1635-1640	—12.5	1660-1635
Nov.	1650-1678	—25.0	1670
Jan.	1650-1676	—25.0	—

Sales: 4,019 (3,185) lots of 5 tonnes.

ICO indicator prices (US cents per pound) for January 14: Comp. daily 1979 116.20 (116.76); 15-day average 122.02 (122.72).

COCOA

A steadier opening failed to be sustained and futures closed after a quiet session near the day's lows. Actuals business was generally sluggish although some manufacturer offtake was registered, reports Gill and Duffus.

COCOA	Yesterday's close £ per tonne	+ or —	Business Done
March	1376-1377	—6.0	1388-1375
May	1402-1403	—5.0	1412-1402
July	1430-1432	—1.5	1438-1430
Sept.	1459-1460	+0.5	1463-1456
Dec.	1485-1494	+0.5	1495-1485
March	1512-1525	+1.0	1521-1521
May	1525-1545	—1.0	1545-1540

Sales: 2,149 (1,054) lots of 10 tonnes.

ICCO indicator prices. Daily price for January 15: 90.26 (90.30); five-day average for January 16: 89.86 (89.47) US cents per pound. Daily price 1590.96 (1594.69); 10-day average 1605.65 (1611.69) SDRs per tonne.

GRAINS

Old crops found speculative buying reflecting keen spot demand due to the weather but values eroded on speculation over heavy UK intervention release tenders. New crops were dull with country hedge selling preventing values advancing on initial consumer demand, reports T. G. Roddick.

	WHEAT		BARLEY	
Mnth	Yestrdy's close	+ or —	Yest'rdy's close	+ or —
Jan	111.25	—0.15	111.40	+0.25
Mar	113.50	+0.30	112.75	+0.40
May	115.90	+0.25	113.95	+0.10
July	118.05	+0.20	—	—
Sep.	100.95	—	100.50	+0.05
Nov.	103.05	—	103.25	+0.20
Jan.	105.95	—	106.15	+0.10

Business done—Wheat: Jan 111.65-1.25, Mar 113.70-3.50, May 116.10-5.90, July untraded, Sept 100.95, Nov 103.05, Jan 105.95. Sales: 234 lots of 100 tonnes. Barley: Jan 111.50-1.40, Mar untraded, May 113.95, Sept untraded, Nov 103.25-3.15, Jan untraded. Sales: 10 lots of 100 tonnes.

HGCA—Locational ex-farm spot prices. Feed barley: W. Mids 110.00, N. West 109.70. The UK monetary coefficient for the week beginning Monday January 19 will change to 1.302.

LONDON GRAINS—Wheat: US dark northern spring no 1 15 per cent Feb 103.50, Mar 104.25. US no 2 soft red winter Jan 102.25, Feb 104.25. French 11½-12 per cent Jan 141.75. English feed fob Feb 117.75, April/June 119.75 paid east coast, Jan 116.50/117.00 buyer/seller, Mar 119.00 buyer. Maize: US no 3 yellow/French transhipment east coast Dec 143.00. Barley: Jan/Feb 6 116.50 paid Dover.

POTATOES

Reports of milder weather on the way and a falling Dutch market produced selling pressure on the opening. Long liquidation and further falls in Amsterdam values encouraged further selling in London before profit-taking near the close lifted values £1.40 from the day's low, reports Coley and Harper.

Month	Yesterday's close	Previous close	Business done
	£ per tonne		
Feb	110.60	112.50	—
Apr	162.90	166.70	168.00-161.50
May	183.50	188.30	188.50-182.00
Nov.	88.50	88.50	—
Feb.	100.80	100.00	—

Sales: 1,494 (1,238) lots of 40 tonnes.

RUBBER

PHYSICALS—The London market opened about unchanged, met some selling pressure throughout the day and closed easier, *reports* Lewis and Peat. Closing prices (buyers): spot 66.75p (67.25p); Feb 64.75p (65.25p); March 65.00p (65.50p). Kuala Lumpur fob prices (Malaysian cents a kilo): RSS No 1 231 (230) and SMR 20 210 (209).

FUTURES—Index 671. Feb 680-690, March 685-695, April-June 690-700, July-Sept 696-711. Sales: Nil.

US MARKETS

THE DOLLAR and oil dominated the markets again, reports Drexel Burnham Lambert. With world oil prices steady, good trade buying in crude oil futures firmed prices despite local and commission house profit-taking. In gold futures initial strength in the dollar prompted profit-taking by commission houses as the market filled the gap between $416 and $414, basis February. However, trade support, coupled with the announcement that there were no plans to intervene to halt the dollar's slide, once again pushed values higher. Initial trade buying in copper took prices to overhead resistance levels but commission house selling touched off stops as the market weakened. Initial follow-through selling by trade and commission house profit-takers depressed silver futures before good support emerged to steady the market. Local and commission house buying held platinum futures steady in the face of mixed selling and profit-taking. The softs were generally quiet with trade selling in sugar overcoming commission house buying. Brazilian hedging in cocoa futures stifling any advance and initial commercial buying in cotton being met by profit-taking. The grains were quiet in advance of yesterday evening's crop reports which are not expected to have any great impact. Profit-taking featured in all the grains and meats

NEW YORK

ALUMINIUM 40,000 lb, cents/lb

	Close	High	Low	Prev
Jan	53.00	—	—	53.00
Feb	53.15	—	—	53.15
March	53.30	53.30	53.25	53.30
May	53.30	53.55	53.30	53.45
July	53.30	53.80	53.80	53.50
Sept	53.35	—	—	53.55
Jan	53.60	—	—	54.00
March	53.80	—	—	54.15
May	54.05	—	—	54.25

COCOA 10 tonnes, $/tonne

	Close	High	Low	Prev
March	1881	1890	1876	1885
May	1916	1925	1914	1920
July	1940	1947	1940	1940
Sept	1970	1975	1970	1970
Dec	1998	2008	1997	1995
March	2015	—	—	2018

COFFEE "C" 37,500 lbs, cents/lb

	Close	High	Low	Prev
March	123.26	126.50	122.55	125.61
May	125.55	127.50	125.10	127.60
July	127.36	—	127.36	130.25
Sept	129.59	131.25	129.50	131.55
Dec	131.50	133.00	132.00	133.05
March	132.00	132.01	132.01	133.05
May	132.50	—	—	131.58

COPPER 25,000 lbs, cents/lb

	Close	High	Low	Prev
Jan	60.80	61.30	61.30	61.30
Feb	60.95	—	—	61.70
March	61.35	62.15	61.30	62.20
May	61.80	62.50	61.80	62.50
July	62.30	63.00	62.30	63.00
Sept	62.60	63.25	62.60	63.30
Jan	63.35	—	—	64.10
March	63.75	—	—	64.30
May	64.05	—	—	64.80

COTTON 50,000 lbs, cents/lb

	Close	High	Low	Prev
March	56.18	56.75	55.75	56.45
May	57.05	57.65	56.65	57.45
July	57.80	58.35	57.35	57.90
Oct	56.00	56.30	56.00	56.00
Dec	55.52	56.10	55.50	55.57
March	56.10	56.10	56.10	56.40
May	56.35	—	—	56.31

CRUDE OIL (LIGHT) 42,000 US gallons, $/barrels

	Latest	High	Low	Prev
Feb	19.20	19.42	19.18	19.13
March	18.93	19.05	18.80	18.87
April	18.62	18.73	18.49	18.54
May	18.35	18.43	18.10	18.21
June	17.97	18.14	17.75	17.90
July	17.70	17.95	17.63	17.58
Aug	17.65	17.65	17.23	17.33
Sept	17.55	17.34	17.25	17.13
Oct	17.50	17.55	17.05	16.98

GOLD 100 troy oz, $/troy oz

	Close	High	Low	Prev
Jan	415.9	415.0	414.0	417.9
Feb	417.0	418.3	414.2	419.2
March	418.7	417.5	415.8	420.3
April	420.4	422.2	418.0	422.3
June	424.5	426.2	422.0	426.8
Aug	428.1	429.7	425.8	430.5
Oct	431.7	434.0	430.5	434.1
Feb	439.2	439.0	439.0	441.5
June	446.5	448.0	446.5	448.6

HEATING OIL 42,000 US gallons, cents/US gallons

	Latest	High	Low	Prev
Feb	55.25	56.50	55.30	55.40
March	54.25	55.00	54.10	54.46
April	51.00	52.00	51.40	51.94
May	49.20	50.10	49.15	49.55
June	48.00	48.75	48.15	48.25
July	48.30	48.75	48.30	48.05
August	48.30	—	—	49.20
Sept	49.80	49.80	49.80	49.15

ORANGE JUICE 15,000 lbs, cents/lb

	Close	High	Low	Prev
Jan	121.75	123.00	121.90	122.00
March	122.15	123.85	122.25	123.35
May	123.65	124.25	123.20	123.65
July	124.00	124.00	123.50	123.75
Sept	124.85	124.00	124.00	124.20
Jan	126.00	124.00	124.00	125.70

PLATINUM 50 troy oz, $/troy oz

	Close	High	Low	Prev
Jan	530.9	530.5	524.7	537.0
April	534.2	536.7	527.0	540.5
July	537.7	538.0	530.5	544.4
Jan	545.7	545.0	540.1	552.4
April	550.7	—	—	557.4

SILVER 5,000 troy oz, cents/troy oz

	Close	High	Low	Prev
Jan	560.3	557.0	556.5	563.2
Feb	561.8	—	—	561.2
March	564.7	566.0	559.0	566.6
May	570.5	571.0	564.0	569.5
July	576.1	576.5	571.0	575.5
Sept	582.1	581.0	579.0	581.5
Jan	594.3	—	—	593.5
March	600.3	599.5	595.0	599.7
May	606.6	—	—	605.1

SUGAR WORLD "11" 112,000 lbs, cents/lb

	Close	High	Low	Prev
March	6.76	6.92	6.70	6.93
May	6.95	7.08	6.91	7.06
July	7.13	7.24	7.07	7.21
Sept	7.23	7.28	7.18	7.34
Oct	7.34	7.46	7.28	7.46

CHICAGO

LIVE CATTLE 40,000 lb, cents/lb

	Close	High	Low	Prev
Feb	59.07	59.12	58.67	58.87
April	58.95	59.17	58.57	58.77
June	57.77	57.87	57.50	57.62
August	56.47	56.50	56.12	56.30
Oct	55.05	55.22	54.80	54.90
Feb	55.55	55.55	55.35	55.62

LIVE HOGS 30,000 lb, cents/lb

	Close	High	Low	Prev
Feb	47.80	48.27	47.55	48.10
April	43.80	44.35	43.70	44.17
June	46.62	46.40	45.82	46.20
July	45.65	46.15	45.62	46.05
August	43.80	43.95	43.40	43.60
Oct	40.40	40.45	40.35	40.40
April	38.15	38.75	38.15	38.50

MAIZE 5,000 bu min, cents/56 lb bushel

	Close	High	Low	Prev
March	157.6	160.0	157.4	159.6
May	164.2	166.2	164.0	166.0
July	168.4	170.0	168.0	169.6
Sept	172.2	174.2	172.2	174.0
Dec	176.2	177.4	175.6	177.4
March	184.0	184.6	183.2	185.0
May	186.2	187.4	186.0	187.4

PORK BELLIES 38,000 lbs, cents/lb

	Close	High	Low	Prev
Feb	64.20	65.25	64.10	64.90
March	63.00	64.30	62.80	63.67
May	63.50	64.25	63.50	63.75
July	61.70	62.60	61.50	61.62
Aug	59.67	60.50	59.40	59.75

SOYABEANS 5,000 bu min, cents/60 lb bushel

	Close	High	Low	Prev
Jan	487.0	489.0	486.0	488.0
March	487.2	489.2	486.0	489.0
May	489.2	491.6	488.0	491.0
July	490.0	492.6	489.0	492.0
Aug	486.0	488.0	485.0	488.6
Sept	473.0	475.0	472.0	474.6
Nov	484.2	486.6	483.0	485.6
Jan	493.2	496.0	492.2	494.6
March	500.0	[illegible]	[illegible]	[illegible]

SOYABEAN MEAL 100 tons, $/ton

	Close	High	Low	Prev
Jan	145.1	146.2	144.5	145.8
March	144.4	145.6	144.0	145.3
May	144.3	145.3	143.8	144.7
July	144.2	144.8	143.5	144.3
August	144.0	144.6	143.5	143.8
Sept	143.7	144.2	143.5	143.3
Oct	143.6	144.0	143.6	143.3
Dec	144.4	144.5	144.0	144.5
Jan	144.9	144.5	144.0	144.5

SOYABEAN OIL 60,000 lbs, cents/lb

	Close	High	Low	Prev
Jan	15.69	15.79	15.60	15.63
March	15.90	15.02	15.83	15.98
May	16.15	16.30	16.11	16.16
July	16.38	16.40	16.30	16.38
August	16.27	16.35	16.22	16.26
Sept	16.15	16.25	16.20	16.19
Oct	16.00	16.15	16.00	16.00
Dec	16.00	16.15	16.00	16.00
Jan	16.01	16.22	16.01	16.10

WHEAT 5,00 bu min, cents/60 lb bushel

	Close	High	Low	Prev
March	283.4	284.4	282.0	283.0
May	263.4	266.2	262.0	267.2
July	250.0	250.4	248.0	249.0
Sept	250.6	251.6	249.2	249.6
Dec	256.4	258.4	255.0	255.6
March	283.4	284.4	282.0	283.0

SPOT PRICES—Chicago loose lard 16.50 (16.00) cents per pound. Handy and Harman silver.

(+15.11). GB—Pigs 80.97p per kg lw (+6.65).

OIL

February Brent traded thinly in a narrow range and closed 5c up on Wednesday's Houston close, but March and April both closed a few cents down. Several Opec crudes traded at or near the agreed fixed prices. February WTI opened 7c up on Nymex and traded 22c up at 1.30 pm EST. In the petroleum products market prompt gas oil firmed but trade was sluggish. Naphtha and gasoline were quiet and fairly stable. Fuel oil was quiet but firm with many traders preoccupied with operational problems caused by bad weather—Petroleum Argus, London.

	Latest	Change + or —
CRUDE OIL—FOB (per barrel)—Feb.		
Arab Light	—	—
Arab Heavy	—	—
Dubai	17.30-17.40	—0.025
Brent Blend	18.65-18.80	+0.05
W.T.I. (1pm est)	19.35-19.40	+0.325
Forcados (Nigeria)	—	—
Urals (cif NWE)	—	—

PRODUCTS—North West Europe

Prompt delivery cif ($ per tonne)

Premium gasoline	185-190	—
Gas Oil	177-180	+1
Heavy fuel oil	117-119	+2
Naphtha	167-169	+1

GAS OIL FUTURES

Month	Yestrdy's close	+ or —	Business Done
	US $ per tonne		
Feb	173.75	+0.25	175.50-173.25
Mar	165.50	—1.00	167.50-64.75
Apr	158.50	—1.00	161.00-58.00
May	151.50	—2.50	155.00-51.50
June	150.50	—3.50	153.50-50.50

Turnover: 3,935 (3,693) lots of 100 tonnes.

HEAVY FUEL OIL

Month	Yesterday close	+ or —	Business Done
	US $ per tonne		
Feb	114.00	+3.50	—
Mar	107.00	+0.50	—
Apr	106.00	+5.00	—

Turnover: 0 (136) lots of 100 tonnes.

MEAT

MEAT COMMISSION—Average fatstock prices at representative markets. GB—Cattle 95.18p per kg lw (+5.02). GB—Sheep 202.62p per kg est dcw

SUGAR

LONDON DAILY PRICE—Raw sugar $164.50 (£109.50), up $4.00 (up £2.00) a tonne for January-February delivery. White sugar $189.50, up $1.50.

No. 6 Contract	Y'sterd'ys close	Previous close	Business done
	$ per tonne		
Mar.	152.2-152.4	155.0-155.8	155.0-154.8
May	156.8-156.9	158.8-159.0	158.6-158.8
Aug.	160.6-161.2	163.0-163.4	163.0-162.6
Oct.	164.4-164.8	166.4-167.0	166.4-164.2
Dec.	170.0-176.0	168.0-176.4	—
Mar.	174.0-174.8	176.0-180.0	—
May.	180.0-184.0	180.0-184.0	—

Sales: 1,431 (5,132) lots of 50 tonnes.

Tate and Lyle delivery price for granulated basis sugar was £213.50 (£211.00) a tonne for export.

International Sugar Agreement—(US cents per pound fob and stowed Caribbean ports). Prices for January 14: Daily price 6.46 (6.21); 15-day average 5.64 (5.58).

FREIGHT FUTURES

	Close	High/Low	Prev.
	Dry Cargo		
Jan.	820/824	827/815	805/807
April	804/806	810/795	789/790
July	670	675/670	655/770
Oct.	800	805/795	770/800
Jan.	840	—	840
Apr.	820/826	825	830
July	690/750	—	730
Oct.	800	—	830
BFI.	813.5	—	803

Turnover: 411 (250).

EEC ambassadors clear cocoa pact procedures

EEC ambassadors have cleared procedures for the EEC and all its members except Italy to give notice to the UN that they will provisionally apply the 1986 International Cocoa Agreement.

This means a UN Conference on Trade and Development session in London on Monday, open to countries which have given such notice, should result in their agreeing to bring the new accord into effect. But the start of buffer stock buying will not be possible until its rules are finalised.

Italy has not yet completed necessary internal procedures but will give its notice when it has done so, they added.

CURRENCIES, MONEY & CAPITAL MARKETS

FOREIGN EXCHANGES

Dollar slightly firmer

THE DOLLAR paused in its downward slide yesterday, but was rather volatile and nervous on comments by officials in the US and West Germany. Mr Paul Volcker, chairman of the US Federal Reserve was quoted in a US newspaper as saying his position on the dollar is unchanged, and he believes it has fallen far enough. Mr Gerhard Stoltenberg, West German Finance Minister, underlined this view. He said the dollar's fall has been too sharp, and that from a long term perspective the US currency is undervalued. Mr Stoltenberg added "This is a more than problematic development."

In Washington the White House was said not to be concerned about a dollar freefall, but would always be concerned if markets behaved in an unstable fashion.

News that US business inventories fell 0.2 per cent in November, after a gain of 0.6 per cent in October, was lergely ignored by the market.

After touching DM 1.8270 the dollar rose to DM1.8425 from DM 1.8380 at the London close. It also improved to FFr 6.1575 from FFr 6.1350; to SFr 1.5460 from SFr 1.5380; and to Y153.55 from Y152.75.

The Bank of Japan was not seen in the market, with Tokyo closed for a national holiday.

On Bank of England figures the dollar's index fell to 104.9 from 105.2.

STERLING—Trading range against the dollar in 1986-87 is 1.5535 to 1.3700. December average 1.4387. Exchange rate index was unchanged at 68.3, compared with 73.7 six months ago.

Sterling finished on a firm note in London, recovering from a weak start, and tending to track the dollar for most of the day. Oil prices remained strong, but had little influence on the pound. Sterling fell to $1.5010-1.5020 in early trading, but closed only ten points lower on the day at $1.5045-1.5055. The pound also opened weak against the D-Mark, touching a record low of DM 2.7550, but recovering to finish at DM 2.7675, compared with DM 2.7650 on Wednesday. It also rose to FFr 9.2675 from FFr 9.24; to SFr 2.3275 from SFr 2.3150; and to Y231.00 from Y230.05.

D-MARK—Trading range against the dollar in 1986-87 is 2.4710 to 1.8360. December average 1.9890. Exchange rate index 148.2 against 136.5 six months ago.

The D-Mark rose against the dollar towards the end of trading in Frankfurt. News the White House was not concerned about a possible dollar freefall did not have a large impact, since the statement went on to suggest the downturn was just an aberration. But it contributed to a hectic final period, with the dollar falling to DM 1.83125 from DM 1.8485, the lowest close since October 1980. Mr Stoltenberg's remark about the sharpness of the dollar's fall, combined with quotes from Mr Volcker to make the market very nervous. Sentiment remained bearish however, with dealers forecasting a further fall in the value of the dollar. A rise in liquidity in the West German banking system, pushing call money down below 4 per cent, increased speculation about an easing of the Bundesbank's credit policy. The central bank did not intervene when the dollar fell to DM 1.8350 from DM 1.8632 at the Frankfurt fixing.

NIGERIAN NAIRE—The naira weakened for the second week running at the Nigerian central bank's foreign exchange auction. The US dollar rose to 3.5369 naira from 3.4250. The effective rate for foreign exchange transactions, including a central bank levy of 0.5 per cent was 3.5547 naira, compared with 3.4422 last week. A total of $50m was auctioned, the same as last week, and eight of the 40 banks bidding were unsuccessful.

EMS EUROPEAN CURRENCY UNIT RATES

	Ecu central rates	Currency amounts against Ecu January 15	% change from central rate	% change adjusted for divergence	Divergence limit %
Belgian Franc	42.4582	42.5974	+0.33	+0.31	±1.5344
Danish Krone	7.85212	7.83421	−0.23	−0.25	±1.6404
German D-Mark	2.05853	2.06140	+0.14	+0.12	±1.0981
French Franc	6.90403	6.87506	−0.42	−0.44	±1.3674
Dutch Guilder	2.31943	2.32466	+0.23	+0.21	±1.5012
Irish Punt	0.768411	0.778208	+1.27	+1.25	±1.6684
Italian Lira	1483.58	1466.96	−1.12	−1.12	±4.0752

Changes are for Ecu, therefore positive change denotes a weak currency. Adjustment calculated by Financial Times.

£ IN NEW YORK

Jan 15	Latest	Previous Close
£ Spot	1.5035-1.5045	1.5040-1.5050
1 month	0.56-0.53 pm	0.64-0.63 pm
3 months	1.79-1.74 pm	1.76-1.74 pm
12 months	6.35-6.25 pm	6.44-6.34 pm

Forward premiums and discounts apply to the U.S. dollar.

STERLING INDEX

POUND SPOT—FORWARD AGAINST THE POUND

Jan. 15	Day's spread	Close	One month	% p.a.	Three months	% p.a.
US	1.4960-1.5070	1.5045-1.5055	0.64-0.61c pm	4.98	1.79-1.74 pm	4.69
Canada	2.0460-2.0535	2.0485-2.0495	0.53-0.45c pm	2.87	1.78-1.73 pm	3.43
Netherlands	3.10½-3.12¼	3.11¼-3.12¼	1⅝-1½c pm	5.53	4⅜-4 pm	5.37
Belgium	56.35-57.40	57.05-57.15	10-1c pm	1.16	41-30 pm	2.49
Denmark	10.46¾-10.53½	10.47¾-10.48¾	1½-1¼ ore pm	1.57	1½-par pm	0.33

CURRENCY RATES

CURRENCY MOVEMENTS

OTHER CURRENCIES

N. Zealand	2.8415-2.8490	1.8985-1.9040
Saudi Ar.	5.4695-5.4745	3.6390-3.6400
Singapore	3.2025-3.2350	2.1420-2.1440
S. Af. (Cm)	3.0825-3.1045	2.0640-2.0680
S. Af. (Fn)	6.4490-6.7395	4.3010-4.4945
Taiwan	53.00-53.25	35.25-35.35
U.A.E.	5.5190-5.5240	3.6720-3.6730

* Selling rate.

DOLLAR SPOT—FORWARD AGAINST THE DOLLAR

EURO-CURRENCY INTEREST RATES

EXCHANGE CROSS RATES

H Fl.	0.321	0.483	0.888	74.10	2.973
Lira	0.509	0.766	1.409	117.6	4.717
C $	0.488	0.734	1.350	112.7	4.522
B Fr.	1.751	2.636	4.847	404.5	16.23

Yen per 1,000: French Fr per 10: Lira per 1,000: Belgian Fr per 100.

FINANCIAL FUTURES

Little overall change

Three-month Euro-dollar deposits and US Treasury bond futures were little changed in the London International Financial Futures Exchange yesterday. The dollar's recent sharp fall gave rise to various possibilities which tended to tug values in different directions. A further decline in the US unit gave rise to fears that foreign holders of US bonds would sell and push interest rates higher. However these fears were alleviated to some extent by comment made by Mr Paul Volcker, chairman of the US Federal Reserve, that the dollar was probably too low against other major currencies. The March Treasury bond contract opened at 99-30, down from 100-10 on Wednesday and the opening level proved to be the day's low. It reached a best level of 100-15 before coming back to finish at 99-30, unchanged from the opening. Three-month Euro-dollar deposits for March delivery opened at 94.02, unchanged from Wednesday and traded in a narrow five tick range before finishing at 94.02.

Sterling based instruments were slightly firmer overall with trading volume holding up well despite the absence of some traders because of the bad weather. The March long gilt opened at 114-08 slightly down from 114-09 on Wednesday but rose to a high of 114-25 before closing at 114-13. Sterling's steadier trend and early speculation about a possible cut in West German and US interest rates may have helped sentiment.

Three-month sterling deposits touched a high of 89.34 for March delivery from an opening level of 89.15 before closing at 89.22 up from 89.18.

LIFFE LONG GILT FUTURES OPTIONS

Strike Price	Calls—Last Mar.	Calls—Last June	Puts—Last Mar.	Puts—Last June
100	14.26	14.42	0.00	0.02
102	12.26	12.45	0.00	0.05
104	10.26	10.51	0.00	0.11
106	8.27	8.62	0.01	0.22
108	6.30	7.16	0.04	0.40
110	4.40	5.44	0.14	1.04
112	3.01	4.20	0.39	1.44
114	1.47	3.10	1.21	2.34

Estimated volume total, Calls 3,919 Puts 584
Previous day's open int. Calls 13,760 Puts 8,199

LIFFE US TREASURY BOND FUTURES OPTIONS

Strike Price	Calls—Last Mar.	Calls—Last June	Puts—Last Mar.	Puts—Last June
90	9.60	9.01	0.00	0.25
92	7.61	7.21	0.01	0.45
94	6.00	5.50	0.04	1.10
96	4.11	4.27	0.15	1.51
98	2.38	3.18	0.42	2.42
100	1.25	2.23	1.29	3.47
102	0.41	1.40	2.45	5.00
104	0.16	1.06	4.20	6.30

Estimated volume total, Calls 16 Puts 0
Previous day's open int. Calls 1,071 Puts 388

LIFFE FT-SE 100 INDEX FUTURES OPTIONS

Strike Price	Calls—Last Jan	Calls—Last Feb	Puts—Last Jan	Puts—Last Feb
16250	17.60	17.61	0.00	0.01
16500	15.10	15.13	0.00	0.03
16750	12.60	12.69	0.00	0.09
17000	10.10	10.32	0.00	0.22
17250	7.62	8.08	0.02	0.48
17500	5.21	6.05	0.11	0.95
17750	3.07	4.30	0.47	1.70

Estimated volume total, Calls 1, Puts 9
Previous day's open int. Calls 314 Puts 132

LIFFE £/$ OPTIONS

LONDON SE £/$ OPTIONS

LIFFE—EURODOLLAR OPTIONS

PHILADELPHIA SE £/$ OPTIONS

LONDON

CHICAGO

SWISS FRANC (IMM)

SFr125,000 $ per SFr

	Latest	High	Low	Prev.
Mar.	0.6550	0.6550	0.6472	0.6531
June	0.6588	0.6590	0.6505	0.6568
Sept.	0.6615	0.6615	0.6545	0.6600

STANDARD & POORS 500 INDEX

$500 times index

	Latest	High	Low	Prev.
Mar.	263.55	264.45	263.40	263.45
June	264.60	265.50	264.40	224.50
Sept.	265.50	266.40	265.50	—
Dec.	266.05	267.10	266.05	266.00

CURRENCY FUTURES

EUROPEAN OPTIONS EXCHANGE

BASE LENDING RATES

Barclays Bank	11	HFC Trust & Savings	11	Yorkshire Bank	11
Benchmark Tst Ltd	11	● Hambro Bank	11		
Beneficial Trust Ltd	12	Heritable & Gen. Tst	11		
Berliner Bank AG	11	● Hill Samuel	§11		
Brit. Bk. of Mid. East	11	C. Hoare & Co	11		
● Brown Shipley	11	Hongkong & Shanghai	11		
Cl. Bank Nederland	11	Lloyds Bank	11		
Canada Permanent	11	Mase Westpac Ltd	11		
Cayzer Ltd	11	Meghraj & Sons Ltd	11		
Cedar Holdings	12	Midland Bank	11		

● Members of the Accepting Houses Committee. * 7-day deposits 6.69%. 1-month 7.03%. Top Tier—£2,500+ at 3 months' notice 10.03%. At call when £10,000+ remains deposited. ‡ Call deposits £1,000 and over 6¼% gross. § Mortgage base rate. § Demand deposit 6.69%. Mortgage 12¼%.

$ WORLD VALUE OF THE DOLLAR

BANK OF AMERICA GLOBAL TRADING ECONOMICS DEPT., LONDON

The table below gives the rates of exchange for the U.S. dollar against various currencies as of Wednesday, January 14, 1987. The exchange rates listed are middle rates between buying and selling rates as quoted between banks, unless otherwise indicated. All currencies are quoted in foreign currency units per one U.S. dollar except in certain specified areas. All rates quoted are indicative. They are not based on, and are not intended to be used as a basis for, particular transactions.

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ECU=$US1.12045 SDR1=$US1.25857
As of January 15, at 11.00 a.m.

	3 months	6 months
Eurodollar Libor:	6¼	6 3/16
Sibor:	6¼	6 3/16

COUNTRY	CURRENCY	VALUE OF DOLLAR	COUNTRY	CURRENCY	VALUE OF DOLLAR	COUNTRY	CURRENCY	VALUE OF DOLLAR
Afghanistan	Afghani (o)	50.60	Gibraltar	Pound*	1.506	Papua New Guinea	Kina	0.9542
Albania	Lek	6.7065	Greece	Drachma	133.82	Paraguay	Guarani (o)	240.00
Algeria	Dinar	4.63	Greenland	Danish Krone	7.01		Guarani (p)	550.00
Andorra	French Franc	6.133	Grenada	E. Caribbean $	2.70		Guarani (d)	630.00
	Spanish Peseta	128.40	Guadaloupe	Franc	6.133	Peru	Inti (o)	13.95
Angola	Kwanza	29.918	Guam	U.S. $	1.00		Inti (f)	20.17
Antigua	E. Caribbean $	2.70	Guatemala	Quetzal (o)	1.00	Philippines	Peso	20.45
Argentina	Austral	1.281		Quetzal (n, f)	2.65	Pitcairn Islands	N.Z. Dollar	1.8692
Aruba	Florin	1.80	Guinea Bissau	Peso	170.479	Poland	Zloty (o)	197.50
Australia	Dollar	1.5521						

MONEY MARKETS

UK rates ease

INTEREST RATES were slightly lower at the longer end of the UK money market yesterday helped by sterling's steadier trend. Once again trading volume was affected by the absence of many City workers because of the bad weather. The softer tone may also have reflected increased hopes of a cut in West German and US interest rates. However, most were agreed that the prospects of an early cut in UK rates were not particularly good. Three-month interbank money was quoted at 11⅛-11 per cent, unchanged from Wednesday, while the six-month rate eased to 11-10⅞ per cent from 11 1/16-10 15/16 per cent. Overnight money traded between 12 per cent and 10 per cent.

UK clearing bank base lending rate 11 per cent since October 15

The Bank of England forecast a shortage of around £750m with factors affecting the market including maturing assistance and a take up of Treasury bills together draining £447m and the unwinding of previous sale and repurchase agreements a further £947m. Exchequer transactions drained £375m and there was a rise in the note circulation of £5m. In addition, banks brought forward balances £45m below target. These were partly offset by £1,069m entering the market through the latest gilt sale and repurchase facility.

To help alleviate the shortage, the Bank offered an early round of assistance which totalled £251m and comprised outright purchases of £8m of eligible bank bills in band 1 at 10⅞ per cent, £8m in band 2 at 10 13/16 per cent, £4m in band 3 at 10¾ per cent and £11m in band 4 at 10 11/16 per cent. It also arranged sale and repurchase agreements on £220m of bills at 10⅞-10 13/16 per cent, unwinding on February 2.

The forecast was revised to a shortage of around £900m before taking into account the early help and the Bank gave further assistance in the morning of £207m through outright purchases of £132m of eligible bank bills in band 2, £6m in band 3 at 10¾ per cent and £8m in band 4 all at unchanged rates. It also arranged sale and repurchase agreements on £61m of bills at 10⅞ per cent, unwinding on February 2.

Further help was given in the afternoon of £348m through outright purchases of £4m of Treasury bills and £76m of eligible bank bills in band 1, £236m of eligible bank bills in band 2 and £32m in band 4 all at unchanged rates. Late help came to £150m, making a total of £956m.

In Paris the Bank of France left its money market intervention rate unchanged at 8 per cent when injecting money through purchases of first category paper.

FT LONDON INTERBANK FIXING

MONEY RATES

LONDON MONEY RATES

LONDON SHARE SERVICE

BRITISH FUNDS

1986/87 High	Low	Stock	Price £	+ or −	Yield Int.	Red.
		"Shorts" (Lives up to Five Years)				
102[illegible]	99[illegible]	Exch. 13¼pc 1987	100[illegible]	+1	—	—
100¾	97[illegible]	Treas 10¼pcCv '87	99[illegible]	.....	—	—
99[illegible]	92[illegible]	Exch 2½pc 1987	99[illegible]	+¼	2.52	9.14
101¼	97[illegible]	Exch. 10½pc 1987	99¾	+[illegible]	10.52	10.94
100[illegible]	93[illegible]	Funding 6½pc 85-87	99[illegible]	−[illegible]	6.56	9.59
101¼	96[illegible]	Treas. 10pc 1987	99¾	+[illegible]	10.03	10.58
97¾	90[illegible]	Treas 3pc 1987	97¾	.....	3.07	8.06
104[illegible]	99[illegible]	Treas. 12pc 1987	101	.....	11.88	10.53
99[illegible]	92[illegible]	Treas 7¾pc 1985-88‡‡	97[illegible]xd	.....	7.99	10.22
104	96¼	Exch 10½pc '88	99[illegible]	.....	10.52	10.64
102[illegible]	95[illegible]	Treas 9¾pc Cv '88	98[illegible]	.....	9.87	10.69
94[illegible]	86[illegible]	Transport 3pc '78-88	93[illegible]	+¼	3.21	7.84
102[illegible]	93[illegible]	Treas. 9½pc '88	98[illegible]	.....	9.69	10.69
107[illegible]	98[illegible]	Treas 11½pc 1989	101[illegible]	.....	11.36	10.77
103[illegible]	95[illegible]	Treas 9½pc Cnv 1989	97[illegible]	+[illegible]	9.77	10.72
92[illegible]	82[illegible]	Treas 3pc 1989	89[illegible]	+[illegible]	3.35	8.00
105[illegible]	95[illegible]	Treas 10½pc 1989	99[illegible]	+[illegible]	10.55	10.70
104[illegible]	94[illegible]	Exch.10pc 1989	98[illegible]xd	.....	10.15	10.72
107[illegible]	97	Exch 11pc 1989	100[illegible]	+[illegible]	10.94	10.73
93[illegible]	84[illegible]	Treas 5pc 1986-89	90[illegible]	+[illegible]	5.60	9.54
110[illegible]	94[illegible]	Exch 10¼pcCv '89	100[illegible]	+[illegible]	10.21	10.07
114[illegible]	103[illegible]	Treas 13pc 1990‡‡	105[illegible]xd	+[illegible]	12.30	10.73
108[illegible]	97[illegible]	Exch 11pc 1990‡‡	100[illegible]xd	+[illegible]	10.92	10.73
113[illegible]	101[illegible]	Exch. 12½pc 1990	104[illegible]	+[illegible]	11.95	10.74
89[illegible]	79[illegible]	Treas. 3pc 1990	84[illegible]	+[illegible]	3.54	8.40
100[illegible]	89[illegible]	Treas 8¼pc 1987-90‡‡	94[illegible]	+[illegible]	8.73	10.20
106[illegible]	93	Treas. 10pcCv 1990	97[illegible]	+[illegible]	10.29	10.74
85[illegible]	76[illegible]	Exch 2½pc 1990	81[illegible]	+[illegible]	3.07	8.21
112[illegible]	99[illegible]	Treas 11¼pc 1991	103[illegible]	+[illegible]	11.36	10.66
94[illegible]	83[illegible]	Funding 5¾pc '87-91‡‡	87[illegible]	+[illegible]	6.57	9.39
86[illegible]	79[illegible]	Treas. 3pc 1991●	80[illegible]	+[illegible]	3.72	8.43
100[illegible]	95[illegible]	Treas 10pc Cv '91	100[illegible]	+[illegible]	9.93	9.91

Five to Fifteen Years

Over Fifteen Years

Undated

Index-Linked

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INDUSTRIALS—Continued

INDUSTRIALS—Continued

1986/87 High	Low	Stock	Price	+ or –	Div Net	C'vr	Y'ld Gr's	P/E
102	70	Metsec 10p	76		12.4	2.6	4.6	11.7
78½	45	Mitchell Cotts	66		1.5	2.1	3.2	17.0
128	81	Morris & Crane 10p	118	+4	12.7	2.9	3.2	14.4
323	210	Morgan Crucible	320		18.5	1.5	3.7	21.3
23½	15½	Morris (W) F.A. 20p	21½	+1½	—	—	—	—
158	65	Myson Grp 10p	158	+5	12.65	2.6	2.3	20.4
365	213	NMW Computers	260	+15	16.0	3.0	3.2	15.0
141	27	Nash Inds.	128		1.5	♦	1.7	♦
27½	12½	Ned & Spencer 10p	17		—	—	—	—
39	28	Newman Inds 10p	37	+1	10.8	1.5	3.0	28.9
134	65	Noble & Lund 10p	91	+1	0.7	4.3	1.1	30.0
65	39	Norcros	95	+4	1.2	2.9	3.1	15.8
150	96	Norank Systems 5p	150	+10	1.5	—	1.4	19.2
286	187	Norcros	273	+2	19.3	2.3	4.8	12.5
222	49	Nu-Swift 5p	222	+2	13.5	2.1	2.2	29.9
£366½	£228	OCE 9pc Cnv 1987-92	£287½	–25	09%	—	(3.1)	—
118	80	Oakwood Grp	116	+5	4.0	♦	‡	♦
250	173	Office & Elect	188	+7	8.5	2.9	6.4	7.7
34	26	Omnitech 1p	32	+2	—	—	—	—
36	18	Optometrics $0.01	23		—	—	—	—
890	500	Oriflame £1	615	–7	128.5	2.1	4.9	15.8
10	5	Overstone 12½c	6½	+1	03.25c	1.9	16.7	3.2
142	85	PCT Grp 10p	125		3.2	—	5.3	—
£20½	£13½	PLM 'B' Sk 25	£16½	–¾	023.2%	0.3	3.6	—
255	160	Pacer Systems $0.01	165		3.8	4.3	1.6	14.5
78	44	Pacific Sales 10p	47		3.0	1.4	9.0	11.2
528	246	Parker Knoll 'A'	525		12.0	3.2	3.2	13.7
222	83	Parkfield Group 2p	211		13.4	4.2	2.4	13.4
53	17	Parlon Intl	28		—	—	—	7.4
£130	£64½	Do 11pc CvLn '94-02	£92	+2	011%	—	12.5	—
617	393	Pearson	600	+2	10.0	2.8	2.3	19.5
50	12	Peak Holdings 5p	47½		—	—	—	—
176	88	Peerless	160	+2	6.3	1.5	5.5	14.3
519	141½	Pentland 10p	495	+7	10.75	22.4	0.2	28.1
£14	775	Photo-Me	£13		5.75	10.0	0.6	19.6
685	315	Pilkington Br. £1	685	+34	13.5	2.7	2.8	14.8

LEISURE—Continued

1986/87 High	Low	Stock	Price	+ or –	Div Net	C'vr	Y'ld Gr's	P/E
132	56	Leisuretime Int 10p	69	+2	12.3	0.9	4.7	(36.4)
125	91	Lowndes	105		2.63	3.4	3.5	11.8
98	71	Marina Dev. 50p	80		3.15	3.0	5.5	7.7
168½	143	Mecca Leisure 10p	168½	+1½	14.1	♦	3.4	♦
220	96	Media Tech Int 20p	105	–1	2.8	4.5	3.8	8.2
170	130	Medminster 10p	170		6.25	1.9	5.2	14.1
220	190	Miles World 10p	175	–5	15.2	3.3	4.2	10.1
90	62	Nationwide Leisure	63½		3.75	2.5	8.3	(8.4)
17	8	Mundo Int 20c	12	+2	—	—	—	—
294	114	Orient Ex Hds $0.125	166	–10	—	—	—	—
46½	23	Owners Abroad 5p	45½		1.5	2.3	4.6	13.0
90	46	Photo (Lon.)	78		—	—	—	—
43	25½	P'dilly Radio NV 5p	43	+3	2.0	♦	6.9	♦
78	25½	Pineapple 10p	72		—	—	—	—
391	280	Pleasurama 5p	322	+6	17.5	3.6	3.3	12.0
178	136	Do. 7pcCnCumRedPf	149	+1	7%	—	6.6	—
157	94	Prestwich	137	+1	0.85	6.9	1.0	19.8
49	18	Radio City 'A' NV	49	+1	—	—	—	—
58	33	Radio Clyde NV	58	+3	3.5	1.6	8.5	10.2
403	322	Really Useful Grp 5p	361		11.25	2.2	4.4	14.6
64	36½	Riley Leisure 10p	52	+2	—	—	—	—
230	129	Saga Hols. 20p	160	+1	4.6	2.6	4.0	13.6
305	148	Samuelson Grp 20p	227	+32	2.4	6.5	1.5	13.4
123	69	Sangers Photo 10p	82		12.2	1.5	3.8	25.0
178	93	Scans 20p	103	+3	4.0	3.5	5.5	7.4
363	175	Scott. TV 10p	341	+1	10.5	3.3	4.3	9.8
27	7	SelecTV 10p	15		—	—	—	—
37	20	Spectrum 5p	25		1.20	4.8	‡	2.6
199	119	Stanley Leisure	292	+2	3.25	2.8	2.4	21.3
49½	31	TSW 5p	48½		2.05	2.6	6.0	9.2
233	137	TV-am 10p	233	+1	5.75	2.6	3.5	15.6
282	144	TVS N/Vtg 10p	275	+2	10.0	♦	5.3	♦
188	59	Television Svcs 50p	74	–4	12.0	2.9	3.8	11.4
340	219	Thames TV	338	+2	9.5	1.9	4.0	18.7
74	50	Tottenham Hotspur	65		—	—	—	—
96	60	Trilion 10p	91	–2	1.1	♦	1.7	♦

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NOTES

REGIONAL & IRISH STOCKS

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(International Edition Page 34)

LONDON STOCK EXCHANGE

Account Dealing Dates

Option *First Dealings	Declarations	Last Dealings	Account Day
Dec 22	Jan 8	Jan 9	Jan 19
Jan 12	Jan 22	Jan 23	Feb 2
Jan 26	Feb 5	Feb 6	Feb 16

* New time dealings may take place from 9.00 am two business days earlier.

International buying inspires renewed advance in equities as Gilts hold steady

A renewed burst of institutional buying sent UK stock markets ahead strongly yesterday, driving the FT-SE 100 index ahead by 23 points to yet another new peak. International funds, encouraged by Wall Street's strength, bought shares in UK banking, pharmaceutical and export companies.

The market opened strongly after publication of the UK Government White Paper confirming plans to increase public spending over the next three years. The latest public opinion polls, also published yesterday, confirmed the Government's lead, fuelling City belief that an election is not far away. Also encouraging market optimism was a survey indicating record UK retail sales in December.

The advance in equities was helped by firmness in Gilt-edged. Gilts brushed aside early weakness in the sterling index, which later recovered, as well as any worries over Government and consumer spending.

The FT-SE 100 index, 24 points up at mid-session, closed with a net gain of 23.8 at 1789.0, its seventh consecutive daily peak. The FT ordinary index, up 17.9 at 1406.9, narrowed the distance from its April 1986 peak to 20 points.

Dealers stressed the international flavour of yesterday's equity buying. With Wall Street surging to new heights, and several European markets also firmer, London still presents attractive investment opportunities to overseas buyers.

Traders discounted such technical factors as shortage of stock in some sectors, or the thinning in the City's ranks caused by rail travel difficulties and the awesome winter weather.

The abrupt dismissal of Ernest Saunders, Guinness chairman, was received favourably in the City, where it was seen as a necessary and decisive move. There were some doubts, however, over the speculation in Pilkington shares ahead of Trade Department clearance for the BTR bid.

Bank stock surged ahead, indicating both optimism ahead of the dividend season, and awareness that this sector now stands to benefit from the strong tide of consumer spending now flowing in the UK.

Trustee Savings Bank (TSB) moved up sharply as institutional buying swept away the remnants of the small, public selling recorded since the public launch of the stock.

Imperial Chemical Industries continued to forge ahead although the fall in the sterling/D-mark rate was checked. Also wanted by the international buyers were Fisons and Glaxo.

Government bonds opened easier, in response to the White Paper, but buyers soon came in, attracted by favourable reports on the Thatcher Government's election chances. Retail buyers kept out of the way, but demand from the traders put ⅜ on prices at mid-session. Gains were trimmed later but the sector closed firmly, helped by a recovery in the sterling exchange rate index.

TSB active

Having been neglected since the initial euphoria which greeted the flotation last October, TSB suddenly revived strongly when some good buying—well over 13m shares changed hands—lifted the shares to 80½p at one stage before a close of 80p, up 3½. The rise coincided with rumours that the bank were to bid for Pearl and the latter's shares advanced to 375p before ending the session 15 better at 360p; analysts' have been expecting the TSB to make an acquisition for some time and were also surprised that a bid for a life insurance company did not emerge last year. Clearing banks, meanwhile, advanced as investors found stock in short supply. Lloyds rose 23 to 482p and NatWest jumped 18 to 577p, while Midland also put on 17 at 594p. Barclays closed 13 to the good at 537p following news of board changes. Merchant banks again gave an impressive showing. Morgan Grenfell, which have been rejuvenated of late by Nomura Securities takeover speculation and the setting up of an internal committee to investigate its organisation and management controls and recommended improvements, advanced 17 more to 428p. Talk of a possible bid of around 560p per share from either NZI or FAI-Insurance left Hill Samuel a further 10 dearer at 505p, while far-eastern stakebuilding rumours left Kleinwort Benson 17 higher at 602p.

Composites contributed to the firm trend. General Accident added 11 at 865p and Royals gained 6, at 865p.

Proceedings in the drinks sector were again dominated by Guinness; initial consideration of the outcome of Wednesday's board meeting saw the shares touch 293p at one stage, but widespread concern that the matter is far from settled prompted nervous offerings and the shares closed a net penny cheaper at 289p. Leading Breweries finished a shade firmer for choice with Scottish and Newcastle finally 3 to the good at 213p, after 216p. Regionals highlighted revived strength in Sunderland-based Vaux which responded to "cheap" buyers to close 14 up at 516p.

Apart from Blue Circle which dropped 11 to 705p on profit-taking in the absence of any fresh news regarding Adelaide Steamship's stake, Building leaders moved higher with the general trend. John Laing continued to reflect the efforts of a large buyer with a gain of 6 at 442p and improvements of 4 and 5 respectively were recorded in Tarmac, 458p, and George Wimpey, 206p. Elsewhere, Barratt Developments continued to draw strength from recent comment and vague takeover speculation with a rise of 4 at 174p. BPB Industries added 9 at 565p and Baggeridge Brick, following the annual report, rose 17 at 545p. Rumours that Williams Holdings was building a stake in the company helped Ruberoid move up 10 afresh at 345p; Williams put on 17 at 637p.

Wall Street and currency considerations pushed ICI further forward and the close was 14½ higher at 1,202p. Elsewhere in Chemicals, speculative gains of 8 and 10 respectively were seen in Halstead, 186p, and Anchor, 288p. British Benzol firmed 4 at 73p following details of a director's share purchases.

The relatively encouraging tenor of the latest FT/CBI survey of distributive trades coupled with fresh hopes of a reduction in UK base lending rates encouraged demand for leading Retailers. Gussies A advanced to £10.75, while Woolworth, aided by publicity given to a broker's circular and the imminent introduction to the traded option market, rallied 8 to 688p. Dixons hardened a few pence to 339p as the Press response to the interim statement encouraged occasional "cheap" support. Elsewhere, sporadic interest was also noted for Coats Viyella, finally 4 up at 524p, while persistent option activity lifted Goodman Brothers 5½ more to 38½p.

Electricals wanted

Features were plentiful among Electricals. Eurotherm's virtual static profits and accompanying statement induced strong buying which left the shares 33 higher at 343p, while Jones Stroud also derived strength from trading news with a rise of 12 at 237p. Speculative buying lifted Automated Security 21 to 221p and Electrocomponents 18 to 421p, while Burgess Products added 15 at 223p. Cambridge gained 14 at 255p and contract news helped United Scientific put on 9 at 184p. First Security jumped 25 more making a two-day surge of 50 to 275p after comment on the excellent half-year figures and acquisition by United Technologies of Connecticut, USA, of a near-10 per cent stake in the company. BSR, still reflecting the recent management buy-out of its Capetronic subsidiary, added 8 afresh at 108p. The leaders closed higher throughout as institutional investors found stock in short supply. BICC added 4 at 308p and Thorn EMI rose 15 at 514p, while Cable and Wireless gained 9 at 371p. British Telecom firmed 4 at 222p and GEC ended the same amount better at 198p.

GKN were the pick of the firm Engineering leaders, rising 10 to 302p following US expansion moves. Elsewhere, comment on the proposed merger left Baker Perkins 15 better at 355p and APV unaltered 305p. GEI advanced 18 more to 117p following the fresh efforts of a large buyer and speculative buying lifted Glynwed 11 to 355p. Buying on expansion hopes left Hobson 8½ up at 64½p and G. M. Firth added 3 more at 72p. W. A. Tyzack relinquished 4 at 98p as dealers awaited further news of the Noble and Lund takeover approach.

Foods improved across a broad front. Tate and Lyle advanced 17 to 623p while Rowntree Mackintosh put on 6 to 427p. Among Retailers, ASDA-MFI eased 4 to 150p on further reflection of the interim statement; brokers Greenwell Montagu recommend clients to switch their holdings to either Dee, Argyll or Tesco. Consequently, Dee hardened a few pence to 230p as did Argyll at 340p, while Tesco, also in receipt of favourable Press comment, closed 2 dearer at 430p. Elsewhere in Foods, Acatos and Hutcheson responded eagerly to the bumper full-year figures and advanced 23 to 276p, while increased first-half earnings lifted Dalepak 3 to 143p.

Sentiment in Hotels received an early boost following slightly better-than-expected full-year profits from Trusthouse Forte, 10 up at 190p. Ladbroke, still buoyed by the recent US property acquisition, firmed 3 more to 389p, while Grand Metropolitan rallied 7 to 459p.

Pilkington below best

Pilkington followed Wednesday's late rise of 20 with a fresh leap of 34 to 685p, after 691p, as dealers anticipated an increased offer of £7 per share from BTR after it was announced at the start of business yesterday that the original bid would not be referred to the Monopolies Commission; BTR closed a few pence lower at 288p. Other miscellaneous industrial leaders rose strongly in response to revived institutional buying and overall stock shortage. Drug companies remained particularly popular. Beecham gained 12 at 482p following news of the disposal of Diploma, its range of German hair care products. Glaxo, meanwhile, reflected British US buying with a further gain of ⅛ to £11½; the shares have risen from 910p since early December. Fisons gained 11 at 601p. Elsewhere, US buying ahead of next months' results helped Reuters rise 18 to 606p, after 614p, and British Aerospace jumped 23 to 581p on details of a Swiss Airbus order. Wellcome rallied 8½ more to 265½p on further consideration of the chairman's optimistic AGM statement and Tod came in for speculative support and ended 21 to the good at 177p. J. H. Fenner, an old bid chestnut, gained 7 to 153p followed the confident tenor of the chairman's address at the annual meeting while Scapa, at 263p, recorded a Press-inspired rise of 8. Takeover hopes lifted Dalgety 5 to 305p and English China Clays 9 to 348p.

Leisure issues highlighed revived support in a relatively narrow market for Samuelson, finally 32 higher at 227p. Pleasurama, often mentioned as possible suitor for takeover chestnut Vaux, closed 6 up at 322p.

The general buoyancy of the equity market was fully represented by Motors. Components made often substantial headway under the lead of Lucas Industries, finally 15 to the good at 505p. AE rose 6 to 295p. Elsewhere, Jaguar took Wednesday's late recovery a stage further, closing 8 dearer at 581p, but recent speculative highflier ERF, up to 80p in initial trading, subsequently succumbed to profit-taking and settled a net 5 off at 73p. Distributors remained firm with Jessups, 128p, and Caffyns, 310p, up 7 and 10 respectively. Lookers, anticipating pleasing figures next Tuesday, put on 2 more to 220p.

British Land were subjected to revived takeover speculation and rose 7 to 185p. Elsewhere in a firm Property sector, Land Securities added 8 at 341p and MEPC gained 4 at 345p. Imry, which announced an agreed merger with Arbuthnot Properties this week, added 5 afresh at 400p. London Metropolitan rose 7 to 190p and Capital and Counties appreciated 10 at 268p. P & O Deferred rose a few pence to 548p following confirmation that the bid for European Ferries, a fraction up at 134p, has escaped reference to the Monopolies Commission.

An otherwise featureless session among Financials was highlighted by AC Holdings which responded afresh to talk of imminent asset injections and advanced 45 for a two-day improvement of 80 to 440p.

With world crude prices still buoyant and Europe gripped by its worst winter freeze for 40 years, there was no shortage of buyers for oil shares.

However, oil shares played a less dominant role in the market place yesterday as interest switched to the domestic and exporter issues.

Continental buyers were active for most of the day, and the final hour of trading brought a wave of demand from the US, as Wall Street opened higher.

Britoil, up 8½ at 204½p had a busy session, with 18m shares changing hands. North Sea issues have most to gain from an upsurge in oil prices, and Britoil proved a disappointment to the market last year.

British Petroleum was up 17 at 805p, as 7.2m shares were traded. Shell (4.6m shares) put on 25 to £10½ on European support.

Overseas Traders displayed a decidedly irregular profile. Lonrho hardened a few pence more to 255p, while Polly Peck, bolstered by a "buy" recommendation from BZW rose 3 to 173p. In contrast, Inchcape, firm of late following an encouraging circular from Kitcat and Aitken, encountered profit-taking and dipped 5 to 536p.

Mining shares remained firm, but the gold producer sector was somewhat less buoyant as the bullion price slackened off after the activity of Wednesday's session. Continental investors were cooler towards the South African issues at first, and prices were tending to lower levels as the end of the session drew nigh.

However, the final hour brought a recovery on the back of active demand from the US, and prices closed in the region of their overnight levels.

The FT Gold Mines index added 3.2 to 338.7. London bullion closed $3.75 down at $415.5. Western Deep shed ¼ to £29¼ and Vaal Reefs, £81¼ gave up 1¼. Bracken added 12 to 178p.

Elsewhere in mines, De Beers, up 31 at 611p, also found support.

Traded Options

The resurgence of demand for London equities was fully reflected in traded options. Total contracts completed amounted to 56,404, made up of 46,422 calls and 9,982 puts. Not surprisingly, British Gas attracted the lion's share of the session's business, with 11,613 calls struck—the January 80's accounting for 2,881 calls, while the January and April 70 series attracted 2,951 and 3,177 trades respectively. Guinness recorded 2,544 calls, 810 of which were transacted in the May 280's, while TSB returned to favour with 2,122 calls and 1,288 puts done. Substantial option activity was also evident for British Telecom, 4,427 calls transacted, and for Wednesday's favourite Consolidated Gold Fields, 4,180 calls done.

Traditional Options

- First dealings Jan 5 Jan 19 Feb 2
- Last dealings Jan 16 Jan 30 Feb 13
- Last declaration Apr 2 Apr 23 May 7
- For Settlement Apr 13 May 5 May 18

For rate indications see end of Unit Trust Service

Stocks favoured for the call included British Gas, Goodman Brothers, Walter Lawrence, Ryan International, WSL, Amber Day, Aran Energy, Hyman, Atlantic Resources, Aquarius, Amstrad, Plessey, Bridport-Gundry, BET, Greenwich Resources, Tricentrol, Guinness, Argyll, Wellcome, New London, Regentcrest, Arenson, Arlington, Howden Group, British Car Auction, Credley Print, London International, C. H. Bailey, Barham, Cosalt, A. J. Worthington and Jack L. Israel. Put options were transacted in Tricentrol, ASDA-MFI, Goodman Brothers, Riley Leisure and Amber Day. Doubles were arranged in Hyman, Ryan International, F. J. C. Lilley and Greenwich Resources.

FINANCIAL TIMES STOCK INDICES

	Jan. 15	Jan. 14	Jan. 13	Jan. 12	Jan. 9	Year ago	1986/87 High	1986/87 Low	Since Compilation High	Since Compilation Low
Government Secs	85.70	84.82	84.57	85.23	85.31	81.32	94.51 (18/4/86)	80.39 (20/1/86)	127.4 (9/1/35)	49.18 (3/1/75)
Fixed Interest	91.35	91.26	91.25	91.47	91.43	87.11	97.68 (7/7/86)	86.55 (23/1/86)	105.4 (28/11/47)	50.53 (3/1/75)
Ordinary ♥	1,406.9	1,389.0	1,395.9	1,389.4	1,386.4	1,113.2	1,425.9 (3/4/86)	1,094.3 (14/1/86)	1,425.9 (3/4/86)	49.4 (26/6/40)
Gold Mines	338.7	335.5	326.3	337.5	324.9	348.8	357.8 (22/9/86)	185.7 (18/7/86)	734.7 (15/2/83)	43.5 (26/10/71)
Ord. Div. Yield	4.06	4.12	4.12	4.13	4.14	4.45				
Earnings Yld.%(full)	9.59	9.72	9.72	9.76	9.78	10.91				
P/E Ratio (net) (*)	12.80	12.62	12.63	12.58	12.54	11.38				
SEAQ Bargains (5 pm)	36,510	28,431	37,045	42,778	47,658	—				
Equity Turnover (£m)	—	1,184.39	1,399.09	1,319.81	2,080.16	505.13				
Equity Bargains	—	36,980	50,164	53,668	65,117	22,244				
Shares Traded (ml)	—	489.5	565.3	593.0	650.3	234.0				

S.E. ACTIVITY Indices	Jan. 14	Jan. 13
Gilt Edged Bargains	94.1	123.2
Equity Bargains	239.6	325.0
Equity Value	2394.0	2827.9
5-Day Average		
Gilt Edged Bargains	129.8	136.9
Equity Bargains	332.3	347.2
Equity Value	2960.1	2948.2

♥ Opening 1395.4; 10 a.m. 1391.7; 11 a.m. 1398.7; Noon 1404.5; 1 p.m. 1405.5; 2 p.m. 1406.4; 3 p.m. 1405.6; 4 p.m. 1402.4

Day's High 1406.9. Day's Low 1383.9

Basis 100 Govt. Secs 15/10/26, Fixed Int. 1928, Ordinary 1/7/35, Gold Mines 12/9/55, SE Activity 1974 *Nil=12.33.

LONDON REPORT AND LATEST SHARE INDEX: TEL. 01-246 8026

NEW HIGHS AND LOWS FOR 1986-87

NEW HIGHS (309)

BRITISH FUNDS (1), AMERICANS (4), BANKS (5), BUILDINGS (16), CHEMICALS (12), STORES (12), ELECTRICALS (18), ENGINEERING (11), FOODS (8), HOTELS (3), INDUSTRIALS (53), INSURANCE (3), LEISURE (5), MOTORS (9), NEWSPAPERS (2), PAPER (5), PROPERTY (12), SHIPPING (1), TEXTILES (6), TOBACCOS (1), TRUSTS (77), OILS (7), MINES (16).

NEW LOWS (4)

BUILDINGS (1) [illegible], Chemicals (1) [illegible], Technology [illegible], OILS (1) [illegible], Petroleum, MINES (1) [illegible]

TRADING VOLUME IN MAJOR STOCKS

The following is based on trading volume for Alpha securities dealt through the SEAQ system yesterday until 6 pm.

Stock	Volume 000's	Closing price	Day's change	Stock	Volume 000's	Closing price	Day's change
[illegible]							

RISES AND FALLS YESTERDAY

	Rises	Falls	Same
British Funds	78	36	19
Corporations, Dominion and Foreign Bonds	[illegible]	[illegible]	68
Industrials	647	316	566
Financial and Property	281	75	229
Oils	52	36	45
Plantations	1	1	13
Mines	67	47	69
Others	48	70	76
Totals	1,155	561	1,084

FT-ACTUARIES INDICES

FT-ACTUARIES SHARE INDICES

These Indices are the joint compilation of the Financial Times, the Institute of Actuaries and the Faculty of Actuaries

EQUITY GROUPS & SUB-SECTIONS

Figures in parentheses show number of stocks per section

	Thursday January 15 1987 Index No.	Day's Change %	Est. Earnings Yield% (Max.)	Gross Div. Yield% (ACT at 29%)	Est. P/E Ratio (Net)	xd adj. 1987 to date	Wed Jan 14 Index No.	Tue Jan 13 Index No.	Mon Jan 12 Index No.	Year ago (approx.) Index No.
[illegible]										

FIXED INTEREST

PRICE INDICES	Thur Jan 15	Day's change %	Wed Jan 14	xd adj. today	xd adj. 1987 to date
[illegible]					

AVERAGE GROSS REDEMPTION YIELDS	Thur Jan 15	Wed Jan 14	Year ago (approx.)
[illegible]			

† Flat yield. Highs and lows record, base dates, values and constituent changes are published in Saturday issues. A list of constituents is available from the Publishers, the Financial Times, Bracken House, Cannon Street, London EC4P 4BY, price 15p, by post 28p.

LONDON TRADED OPTIONS

Option		CALLS Jan.	CALLS Apr.	CALLS July	PUTS Jan.	PUTS Apr.	PUTS July
[illegible]							

January 15. Total Contracts 56,404. Calls 46,422. Puts 9,982. FT-SE Index Calls 1,749. Puts 1,207. *Underlying security price.

LONDON RECENT ISSUES

EQUITIES

Issue Price p	Amount Paid up	Latest Renunc. Date	1986/87 High	1986/87 Low	Stock	Closing Price p	+ or -	Net Div.	Times Covered	Gross Yield	P.E. Ratio
[illegible]											

FIXED INTEREST STOCKS

Issue Price £	Amount Paid up	Latest Renunc. Date	1986/87 High	1986/87 Low	Stock	Closing Price £	+ or -
[illegible]							

"RIGHTS" OFFERS

Issue Price p	Amount Paid up	Latest Renunc. Date	1986/7 High	1986/7 Low	Stock	Closing Price p	+ or -
[illegible]							

Renunciation date usually last day for dealing free of stamp duty. [illegible]

WORLD STOCK MARKETS

AUSTRIA

Jan. 15	Price Sch.	+ or —
Credit'nst'lt pp	2,105	+5
Goesser	3,130	+30
Interunfall	13,100	+100
Jungbunzlauer	11,200	—
Laenderbank	2,100	—
Perlmooser	656	+31
Steyr Daimler	155	—1
Veitscher Mag	11,030	—17

BELGIUM/LUXEMBOURG

Jan. 15	Price Frs.	+ or —
B.B.L.	3,110	+20
Banq. Gen. Lux.	16,000	—
Banq. Int. A.Lux	15,150	—
Bekaert	10,000	—
Ciment CBR	3,900	—
Cockerill	136	+3
Delhaize	2,840	—
EBES	4,910	—
Electrobel	14,925	—
Fabrique Nat.	1,860	—40
G3 Inno BM	9,410	+60
GBL (Brux)	3,590	+10
Generale Bank	6,250	+10
Gevaert	6,010	—
Hoboken	7,920	—40
Intercom	3,910	+40
Kredietbank	4,050	—
Pan Hldgs.	10,700	—
Petrofina	9,400	+80
Royale Belge	29,387	—6
Soc. Gen. Belge	3,400	+15
Sofina	11,800	+50
Solvay	8,420	+30
Stanwick Intl.	230	—
Tractionel	6,480	—30
UCB	9,950	+80
Wagons Lits	5,540	—60

DENMARK

Jan. 15	Price Knr %	+ or —
Baltica Skand.	805	—
Cop Handels'nk.	287	—4
D. Sukkerfab	358	—
Danske Bank	359	+4
East Asiatic	185	—3
Forenede Brygg.	896	—
GNT Hld	310	—
I.S.S.B	800	—
Jyske Bank	505	+5
Novo Inds*	249	—
Privatbanken	279	—1
Sophus Berend.	765	—
Superfos	168	—

FINLAND

Jan. 15	Price Mks	+ or —
Amer	187.5	—0.5
KOP	47	—
Kone	199	—
Finnish Sugar	101	—2
Nokia	150	—2
Pohjola "B"	76	—1
Rauma-Repola	20	—
Stockmann "B"	147	—2
UBF "C"	32.2	—0.1
Wartsila (S11)	168	—

NETHERLANDS

Jan. 15	Price Fls	+ or —
ACF Holding	64.1	—
AEGON	87.3	+0.8
Ahold	107.1	+1.7
AKZO	143.5	+0.1
ABN	520	+10
AMEV	74	+2.1
AMRO	90.5	+2.7
Bredero Cert.	86	+5
Bos Kalis Westm.	9.5	+0.2
[illegible]	[illegible]	[illegible]

GERMANY

Jan. 15	Price Dm.	+ or —
AEG	319	+6.4
Allianz Vers.	2,020	+30
BASF	255.9	—0.1
Bayer	292.5	+5.5
Bayer-Hypo	533	+11
Bayer-Verein	478	+5
BHF-Bank	504	+9
BMW	521	+7
Brown Boveri	287.5	+0.5
Commerzbank	302	+9
Cont'l Gummi	325	+12
Daimler-Benz	1,129	—30
Degussa	458	—9
D'sche Babcock	216	+4.5
Deutsche Bank	766	+18
Dresdner Bank	392.5	+11.8
Feld-Muehle Nbl.	276	+5.5
Henkel	480	+12
Hochtief	944	—1
Hoechst	260	+3
Hoesch werke	108.8	+1
Holzmann (P)	635	+10
Horten	236	+5
Hussel	604	+3
Karstadt	461	+13
Kaufhof	518	+15
KHD	164.5	+6
Kloeckner	60.0	—
Linde	676	+3
Lufthansa	177	+1
MAN	167	+3
Mannesmann	168	+5
Mercedes Hld.	957	—
Metallgesell	300	+15
Muench Rueck	2,390	+40

Indices

Base value of all indices are 100 except Brussels SE—1,000, JSE Gold—255.7, JSE Industrial—264.3, and Australia, All Ordinary and Metals—500. NYSE All Common—50; Standard and Poors 10; and Toronto Composite and Metals—1,000. Toronto indices based 1975 and Montreal Portfolio 4/1/83. † Excluding bonds. ‡ 400 Industrials plus 40 Utilities, 40 Financial and 20 Transports. c Closed. u Unavailable.

LONDON Chief price changes (in pence unless otherwise indicated)

RISES		
A.C. Hldgs.	440	+45
Ac. & Htchson.	276	+23
BSR Intl.	106	+ 8
Barclays	537	+13
Beecham	482	+12
Brit. Land	185	+ 7
Britoil	204½	+ 8½
Eurotherm	3113	+33
Fenner (J.H.)	153	+ 7
GEI Intl.	117	+ 8
GKN	302	+10
Glynwed	355	+11
Jones Stroud	257	+12
Lloyds Bk.	492	+23
Lucas Inds.	505	+15
Morgan Gren.	428	+17
NatWest Bk.	577	+18
Pearl	380	+15
Pilk. Bros.	685	+34
Reuters B	606	+18
Ruberoid	345	+10
Scapa	263	+ 8
TSB	80	+ 3½
Tate & Lyle	623	+17
Trusth. Forte	190	+10
Vaux	516	+14
FALLS		
—	—	—

OVER-THE-COUNTER *Nasdaq national market, closing prices*

Continued from Page 37

NEW YORK STOCK EXCHANGE COMPOSITE CLOSING PRICES

12 Month High	12 Month Low	Stock	Div.	Yld.	P/E	Sls 100s	High	Low	Close Quote	Ch'ge Prev. Close
27⅝	17	AAR s	.50	1.8	20	125	27½	27⅛	27¼	+¼
30½	21¾	ADT	.92	3.1		594	30¼	29½	29¾	−⅜
35⅝	17	AFG s	.12i	.3	18	2075	u36⅝	35⅝	36¼	+1½
32⅝	16¾	AGS			22	1385	u34⅞	32⅝	33½	+1⅛
15	6¾	AMCA				126	7⅛	7	7⅛	+⅛
62⅛	30⅝	AMR			13	12253	56⅞	53¾	55¾	+1
24¾	20⅝	ANR pf	2.12	8.7		35	24½	24½	24½	+½
16½	10	ARX	.71t	6.1	11	141	11⅝	11¼	11⅝	+⅜
41½	28¾	ASA	2a	5.1		794	39⅞	39¼	39⅝	−¾
18⅝	9¾	AVX		2.2		1279	14¾	13¾	14⅝	+1
32	26	AZP	2.72	8.7	9	2410	31¼	31	31⅛	+⅛
55	31⅝	AbtLb s	.84	1.6	23	5101	51¾	50⅝	51⅝	+½
32	25	AccoWd	.56	1.9	16	709	29¾	28½	29¾	+1
14½	8	AcmeC	.40	3.6		1004	11½	11	11¼	
9¾	6⅞	AcmeE	.32b	4.4	19	100	7⅜	7⅛	7¼	−⅛
23⅞	17½	AdaEx	3.42e	16.		147	21⅝	21¼	21½	+⅛
16⅝	9¾	AdmM s				106	16¼	16	16	
20⅝	12⅞	AdvSys	.62t	3.3	15	216	19⅛	18½	19	+¾
32⅞	12⅞	AMD				14196	18¾	18	18¼	+¼
12⅝	5¼	Adobe				469	6⅝	6⅜	6⅝	+⅜
18⅝	13¾	Adob pf	1.84	11.		9	17⅜	17¼	17⅜	
20½	16⅝	Adob pf	2.40	12.		32	u20⅝	20⅜	20½	
18⅝	11½	Advest	.12a	.8	11	427	14⅛	13½	14⅛	+⅜
66¼	52¼	AetnLf	2.64	4.3	9	3014	61⅜	60½	60¾	−⅛
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

Continued on Page 37

NYSE COMPOSITE CLOSING PRICES

Continued from Page 36

12 Month High	Low	Stock	Div.	Yld.	P/E	Sls 100s	High	Low	Close Quote	Ch'ge Prev. Close
27½	14⅞	PayCsh	.16	.8	17	2751	21¾	20⅛	20¾	+¾
62½	51⅞	PenCen	.05	.1	24	1973	55⅝	54¾	54⅞	−¼
88⅝	59⅛	Penney	2.48	3.2	13	6335	78¼	77¼	78	+¼
43⅝	27⅝	PaPL	2.60	6.6	14	667	39⅜	38¾	39¼	
55⅛	40⅞	PaPL	pf4.40	8.1		z10	54½	54½	54½	−⅝
54	38½	PaPL	pf4.50	8.7		z270	52½	51½	52	−1
100	77¼	PaPL	pf8.60	8.5		z7960	u101½	100	101	+2⅞
30¼	25⅞	PaPL	dpr2.90	10.		2	28⅝	28⅝	28⅝	−⅛
99⅝	72½	PaPL	pr8.40	8.5		z150	u99½	98¼	98½	−⅛
110½	99¼	PaPL	pr 11	10.		z230	106½	106	106½	−½
95	69	PaPL	pr 8	8.4		z9770	u96¾	94⅝	94¾	+⅝
100	77	PaPL	pr8.70	8.7		z1490	100	98⅝	100	
59	41½	Pennwlt	2.20	4.0	21	400	55¼	54⅝	55	
34¾	24½	Pennw	pr1.60	5.0		27	32¼	31¾	32¼	
77⅝	48⅛	Pennzoi	2.20	3.1	68	934	70¾	69	70	−1
23¾	18⅞	PeopEnl	.32	5.4	11	885	u24⅛	23	24¼	+1
48¼	25⅜	PepBoy	.22	.5	32	1146	47	44¾	47	+1⅛
35⅝	22	PepsiCo	.64	2.1	18	31948	30¼	29¾	30⅛	+1
13⅛	10⅝	PerkF	n.25e	2.2		148	11⅝	11¼	11½	−⅛
36⅞	23⅜	PerkEl	.60	1.9	20	9444	31⅝	30⅞	31¼	−¼
7½	5½	Prmian	.60e	8.3	7	1125	7¼	7⅛	7¼	+⅛
20⅞	12	PeryDr	.22	1.6	24	301	14¼	13⅝	14⅛	+¼
35¾	22⅞	Petrie s	.70	2.5	17	592	28⅛	27½	27⅝	−⅜
33	22¾	PetRs	2.57e	7.9		161	32⅞	32	32⅝	−⅜
20	16	PetRs	pf1.57	8.2		56	19¼	19	19⅛	−⅛
3	1	Pnlaw				126	1⅛	1¼	1¼	−⅛
72⅞	46¼	Pfizer	1.64	2.5	16	9136	65¾	64½	65⅜	+⅜
[illegible]										
28¾	21⅛	XTRA	.64	2.3		842	28	27⅛	27⅞	+¾
19	13½	Yorkin n				218	18⅞	18½	18½	−½
6⅝	2¼	Zapata				644	4	3⅞	4	+⅛
43⅞	20⅜	Zayre s	.32	1.2	19	2640	26¼	25⅞	26⅛	+⅛
17	9¾	Zemex	.40	3.4	18	33	12⅛	11¾	11¾	−¾
28⅞	17⅞	ZenithE				3838	25⅛	24⅝	24⅞	+¼
18¼	8	ZenLb s			57	662	9½	9⅛	9⅛	−¼
22⅝	12⅛	Zero s	.20	1.7	18	159	17¼	16¾	17	−⅛
45¾	32⅝	Zurn	1.32	3.3	16	881	40¼	40	40⅛	+⅛
10⅝	6¾	Zweig	n.10e	1.0		1254	9⅞	9¾	9⅞	+⅛

Sales figures are unofficial. Yearly highs and lows reflect the previous 52 weeks plus the current week, but not the latest trading day. Where a split or stock dividend amounting to 25 per cent or more has been paid, the year's high-low range and dividend are shown for the new stock only. Unless otherwise noted, rates of dividends are annual disbursements based on the latest declaration.

a-dividend also extra(s). b-annual rate of dividend plus stock dividend. c-liquidating dividend. cld-called. d-new yearly low. e-dividend declared or paid in preceding 12 months. g-dividend in Canadian funds, subject to 15% non-residence tax. i-dividend declared after split-up or stock dividend. j-dividend paid this year, omitted, deferred, or no action taken at latest dividend meeting. k-dividend declared or paid this year, an accumulative issue with dividends in arrears. n-new issue in the past 52 weeks. The high-low range begins with the start of trading. nd-next day delivery. P/E-price-earnings ratio. r-dividend declared or paid in preceding 12 months, plus stock dividend. s-stock split. Dividends begin with date of split. sls – sales. t-dividend paid in stock in preceding 12 months, estimated cash value on ex-dividend or ex-distribution date. u-new yearly high. v-trading halted. vi-in bankruptcy or receivership or being reorganised under the Bankruptcy Act, or securities assumed by such companies. wd-distributed. wi-when issued. ww-with warrants. x-ex-dividend or ex-rights. xdis-ex-distribution. xw-without warrants. y-ex-dividend and sales in full. yld-yield. z-sales in full.

AMEX COMPOSITE CLOSING PRICES

Stock	Div.	P/E	Sls 100s	High	Low	Close	Chng
[illegible]							

OVER-THE-COUNTER *Nasdaq national market, closing prices*

Stock	Sales (Hnds)	High	Low	Last	Chng
[illegible]					

Continued on Page 35

FINANCIAL TIMES
WORLD STOCK MARKETS

WALL STREET

Buyers show undiminished appetite

DAY 10 was the biggest yet in Wall Street's New Year rally with a record 253.7m shares traded yesterday as prices continued to soar, *writes Roderick Oram in New York.*

Help came from the better tone in the bond market prompted by the dollar's brief respite in foreign exchange markets.

The Dow Jones industrial average closed up 35.72 points at 2,070.73. although it had been up 48 points in the last half hour before profit taking trimmed the index.

The blue chips led the way with broad market indices experiencing smaller gains. The New York Stock Exchange composite index rose 1.51 points to 152.09 and the American Stock Exchange composite gained 2.82 points to 292.50. The previous NYSE volume record was set last December 19.

Analysts attributed the surge to a bandwagon effect which drew into the markets some investors who had been waiting for a downturn to invest at lower prices. The concentration on blue chips was seen by some as a potentially negative development in market mood.

Among the blue chips, American Express gained $1¼ to $65, Boeing rose $1¼ to $53, McDonald's was up $2¼ to $65¾, 3M added $4⅜ to $124½. General Electric advanced $2 to $93 and United Technologies added $1⅜ to $49⅝.

Pan Am Corp. jumped $1 to $5⅝. The parent of Pan American World Airways was one of the most active issues on news it was discussing a possible takeover by AMR, up $1 to $55¾, which is the parent of American Airlines.

Airline stocks generally were strong. UAL added $2¼ to $55¾. Delta Airl ines gained $1 to $51¼. Texas Air was up $¼ to $37⅝ on the American Stock Exchange and USAir rose $1⅞ to $39¾.

Owens-Illinois gained $1⅜ to $55⅝ on heavy volume. Its board is reported to be split over whether to except the improved $60 a share offer from Kohlberg Kravis Roberts, the leveraged buyout specialists.

Abbott Laboratories gained $½ to $51⅛ after reporting fourth quarter net income of 70 cents a share against 59 cents a year earlier. Among other drug companies, Merck rose $4⅞ to $132½ and Smithkline Beckman advanced $1⅞ tp $99⅛ while El Lilly slipped $¼ to $81¼. Warner-Lambert gained $2⅛ to $63 following recommendation by a Kidder Peabody analyst.

Marine Midland was up $⅝ to $51⅛. It reported fourth quarter net of $1.89 a share against $1.47. First Bank System added $1⅛ tp $30¾ following fourth quarter profits of 92 cents a share against 76 cents. First Wachovia, another leading regional bank, also boosted earnings from 80 cents to 95 cents a share but its shares fell $1 to $39¾.

Ralston Purina was ahead $1⅝ to $77½. It reported first quarter profits of $3.97 a share against $2.23.

Quaker Oats dipped $⅛ to $44⅜. It said it would take a $20.9m second quarter write-off. Federal Mogul edged up $¼ to $41½ after forecasting a fourth quarter loss of $22.5m.

Credit markets benefited from the dollar's better performance yesterday but the feeling was widely held that the US currency was propably enjoying only a temporary respite before resuming its fall.

Bond prices opened higher with the 7.50 per cent benchmark Treasury long bond gaining almost half a point. Some of the advance was given up in late morning leaving the bond up 5/16 of a point at 101 11/32 yielding 7.38 per cent. Similar gains were achieved by most maturities.

LONDON

Foreigners pave way to fresh peak

A WAVE of European and US buying hit London yesterday and pushed the FT-SE 100 to another peak with a 23.8 surge to 1,789.0. The FT Ordinary index, which jumped 17.9 points to 1,406.9, is now just 20 points short of its record high set in April.

The Government's policy document on public spending triggered an early rally which gathered pace on public opinion polls suggesting that the Conservative Party would perform well if an election were called soon. Record retail sales for December also aided sentiment.

Guinness failed to stop its run of declines with a fresh 1p drop to 288p despite the boardroom shakeout while ICI continued to forge ahead with a fresh £⅛ advance to £12.

Chief price changes, Page 35; Details, Page 34; Share information service, Pages 32–33

AUSTRALIA

REKINDLED TAKEOVER activity and stronger bullion prices boosted Sydney and pushed the All Ordinaries index 13.6 higher to 1,540.3 in heavy turnover. The media sector came alive again with speculation of a counter bid for Herald & Weekly Times following John Fairfax's increased A$23 offer for Queensland Press. Queensland jumped A$1 to A$23, Advertiser picked up 50 cents to A$7 and News Corp closed 15 cents higher at A$18. HWT at A$15.30 was 10 cents higher.

In golds, Central Norseman gained A$1 to A$17.50, GMK was 60 cents ahead at A$17.10 and Poseidon closed 30 cents up at A$5.80.

After the close of trading it was revealed that Mr Robert Holmes à Court had dropped his bid for HWT and will sell his stake in the company to Mr Rupert Murdoch. In return Mr Holmes à Court would buy two of HWT's key operations for A$460m.

HONG KONG

A LARGE cut in domestic interest rates failed to prevent a sharp slide in Hong Kong and the Hang Seng index retreated 19.11 to 2,559.12 on brisk profit-taking. Turnover amounted to HK$1.32bn.

Properties benefited from the cut in prime rates of 1½ percentage points to 5 per cent. SHK Properties jumped 60 cents to HK$19 and Hutchison firmed 25 cents to HK$45.75.

Evergo and China Entertainment resumed trading ahead of a stock swap with the Singapore based United Industrial Corp.

SINGAPORE

PROFIT-TAKING hit share prices in Singapore as investors, concerned over the market's overbought situation, decided to liquidate their holdings.

The Straits Times industrial index fell 8.68 to close at 949.29 in reduced turnover. Blue chips ended with some of the largest losses but speculative interest gave a boost to some Malaysian issues which rose against the trend.

Among actives Sime Darby slipped 9 cents to S$2.36 and Sealion Hotel fell 11 cents to S$1.27.

SOUTH AFRICA

THE SEE-SAW in the bullion price forced Johannesburg gold shares lower again.

Kloof dropped 75 cents to R39.25, Harmony was R1.50 down at R52.75 and Buffels closed R1.75 cheaper at R80. Sector leader Vaal Reef dropped R5 to R412.

Industrials were weaker as Barlow Rand gave up 10 cents to R19.70 as SA Breweries lost 10 cents to R15.40.

Leading diamond share De Beers held unchanged at R40.25.

CANADA

INDUSTRIALS and base metal stocks led a rally in Toronto on the back of Wall Street's sharp early gains.

Canadian Tire Class A jumped C$1⅛ to C$13¾ in active trading while Canadian Tire common stock plunged C$27 to C$47 in thin trading after the Ontario and Quebec Securities Commission blocked a C$270m takeover bid for 49 per cent of the common shares.

Montreal staged a broad advance.

EUROPE

Paris and Madrid hit records

THE FIRMER trend strengthened in Europe yesterday. All bourses closed higher on bargain-hunting and expectations of interest rate cuts while the dollar's weakness faded into the background.

Paris reached record highs in moderately active trading boosted by Wall Street's overnight strength and anticipation of lower interest rates both at home and in West Germany. The market was also looking forward to Monday's Paribas flotation.

The CAC General index and the Indicateur de Tendance were both at records, the former climbing 4.3 to 418.1 and the latter up 0.3 to 105.2.

Madrid also rose to a new high after Wednesday's profit-taking, with the general index up 4.91 to 236.43. Construction and bank shares were strongly ahead and Telefonica rose 3.3 percentage points to 168 per cent of nominal market value.

Stockholm revived well after its six-day plunge as foreign and local investors indulged in some bargain hunting. Market nerves were also soothed by the November industrial production figures and the central bank's decision not to raise the discount rate

Most sectors picked up and the Veckans Affarer all-share index put on 29.5 to 821.9, while the J&P index recovered 70.33 to 2,264.48.

News of Fermenta's de-listing came after the bourse closed.

Frankfurt pursued its technical recovery, buoyed by hopes of a cut in the domestic discount rate and by the strength of the bond market as well as Wall Street's rally. Concern about the weakness of the dollar appeared to have evaporated, at least for the moment.

Banks benefited from the interest rate speculation, with Deutsche up DM 18 to DM 788 and Dresdner DM 11.80 to DM 393.

Bonds closed sharply higher on active buying sparked by the dollar's weakness. The Bundesbank sold a hefty DM 326m worth of paper after selling DM 122.1m on Wednesday.

Amsterdam finished higher after an active day of bargain-hunting. The positive mood was buoyed by strong bonds and hopes of further interest rate cuts as the central bank lowered its "special advance" rate slightly.

Zurich also closed firmer on selective buying.

Jacobs Suchard, making a hostile takeover bid for Hero, added SFr 50 to SFr 8,900. Hero share trading remained suspended.

Ciba-Geigy was off SFr 50 at SFr 3,350 amid news of lower 1986 sales.

Bank Leu, caught up in the Guinness affair, was down again, losing SFr 100 to SFr 3,725.

Brussels moved ahead slightly although there was still some hesitation over the interest rate climate. Petrofina gained BFr 80 to BFr 9,400.

Milan ended higher across the board in active trading, while **Oslo** was slightly firmer, with Norsk Data up NKr 5 to NKr 219.5 on speculation about strong 1986 results.

Second thoughts ahead of NTT listing

Markets in Japan were closed yesterday for a public holiday

WITH the listing of shares in Nippon Telegraph and Telephone (NTT) scheduled for February 9, investors who have bought stock in the privatised communications group are worried that many shares will be left unsold after the payment date of January 19, *writes Shigeo Nishiwaki of Jiji Press.*

Sales of NTT shares are poor because of the unexpectedly high selling price and the lacklustre stock market.

NTT, formerly a government-run telecommunications monopoly, was privatised in April 1985 in a bid to improve the efficiency of telecommunications business in Japan.

The Ministry of Finance decided on a plan to sell shares of the corporation, capitalised at Y760bn ($5bn), by 1.95m shares annually over the four years beginning in fiscal 1986.

The unveiling of the Finance Ministry's plan fuelled early enthusiasm for NTT shares. Meanwhile, investors regained their appetite for shares as interest rates on bank deposits and postal savings hit all-time lows.

Many people were further tempted to buy NTT shares by the fact that the 50p-paid British Telecom shares in Britain had attracted a very high premium, changing hands at 95p on the day of listing.

When the Finance Ministry's plan was disclosed, rumours circulating especially among brokers had it that the selling price for NTT shares would be set at Y400,000 a share.

As the equity market was headed for a sharp rise, the selling price expected by many was bid up to Y600,000 and then to Y800,000 a share. Towards the year-end, the Finance Ministry finally set the selling price at Y1.19m for a share with the face value of Y50,000.

The Ministry accepted applications from 10.4m people and 38,750 firms for the purchase of the 1.65m shares offered for public sale. Of the 1.95m shares to be sold in the first year, 200,000 shares were auctioned to get a reference for pricing and 100,000 shares were set aside for sale to depress the market if and when it became overheated.

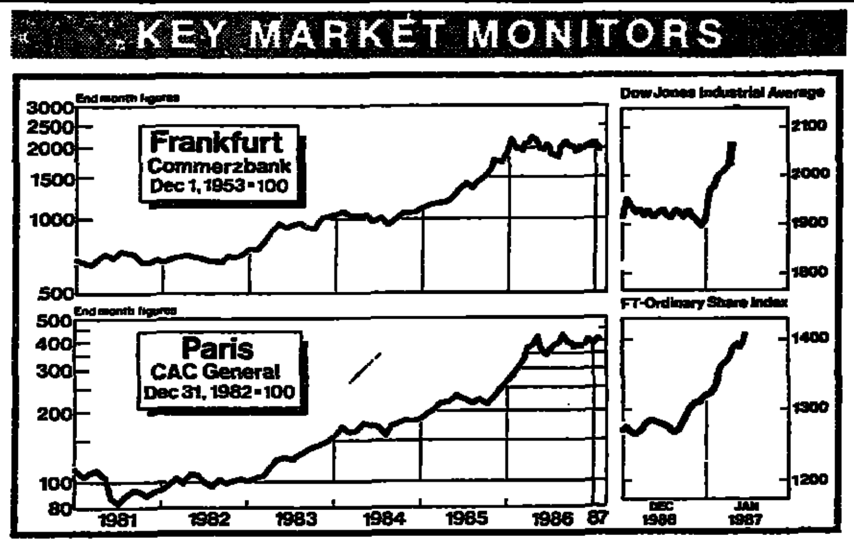
Successful applicants were chosen by an official lottery late in December and were asked to make payment from January 5. But not all the applicants are willing to pay up, so the Ministry is now making efforts to sell off the NTT shares.

Among the forces behind the NTT shares' loss of popularity is the unexpectedly high selling price. In fact, the price was driven up by financial institutions and certain other entities wishing to have close business relations with the privatised NTT. One institutional investor said the price-earnings ratio of 102 is too high to buy the share.

Successful applicants hoping to earn capital gains when the NTT shares are listed were disappointed by the high price. Their fears mounted in view of the poor sales of gold coins issued to mark the 60th anniversary of Emperor Hirohito's reign.

The depressed stock market was another factor disappointing investors. After hitting an all-time high on January 6, the market fell back largely in response to higher crude oil prices and the stronger yen. Ironically, a further depressant came with sales of shares worth some Y2,000bn to gain cash for NTT share purchase.

KEY MARKET MONITORS



STOCK MARKET INDICES

	Jan 15	Previous	Year ago
NEW YORK			
DJ Industrials	2,066.65*	2,035.1	1,519.04
DJ Transport	865.92*	852.96	692.78
DJ Utilities	222.31*	222.96	172.55
S&P Composite	264.82*	262.64	206.64
LONDON			
FT Ord	1,406.9	1,389.0	1,113.2
FT-SE 100	1,789.0	1,765.2	1,370.1
FT-A All-share	890.42	879.65	674.85
FT-A 500	979.22	967.99	738.15
FT Gold mines	338.7	335.5	348.8
FT-A Long gilt	10.01	10.07	10.68
TOKYO			
Nikkei	(c)	18,784.65	12,928.6
Tokyo SE	(c)	1,591.57	1,027.90
AUSTRALIA			
All Ord.	1,540.3	1,526.1	1,048.5
Metals & Mins.	780.5	760.1	526.4
AUSTRIA			
Credit Aktien	220.68	220.78	254.480
BELGIUM			
Belgian SE	3,999.47	3,990.29	2,768.26
CANADA			
Toronto			
Metals & Minls	2,235.6*	2,199.6	2,149.0
Composite	3,282.1*	3,266.8	2,812.0
Montreal			
Portfolio	1,655.18*	1,643.80	1,137.46
DENMARK			
SE	—	201.87	218.31
FRANCE			
CAC Gen	418.10	413.80	270.2
Ind. Tendance	105.20	104.90	165.7
WEST GERMANY			
FAZ-Aktien	632.71	627.64	707.20
Commerzbank	1,916.70	1,899.50	2,106.1
HONG KONG			
Hang Seng	2,559.12	2,578.23	1,782.23
ITALY			
Banca Comm.	732.95	720.75	471.43
NETHERLANDS			
ANP-CBS Gen	272.90	270.10	101.3
ANP-CBS Ind	265.60	262.50	245.8
NORWAY			
Oslo SE	384.21	362.14	401.97
SINGAPORE			
Straits Times	949.29	957.97	634.00
SOUTH AFRICA	Jan 15	Prev	Year Ago
JSE Golds	—	2,154.0	1,184.1
JSE Industrials	—	1,457.0	1,101.6
SPAIN			
Madrid SE	236.43	231.52	108.55
SWEDEN			
J & P	2,264.48	2,194.15	1,819.21
SWITZERLAND			
Swiss Bank Ind	585.10	583.30	596.1
WORLD	Jan 14	Previous	Year ago
MS Capital Int'l	379.0	372.2	252.7

COMMODITIES

(London)	Jan 15	Prev
Silver (spot fixing)	369.75p	373.90p
Copper (cash)	n/a	n/a
Coffee (March)	£1,557.50	£1,577.50
Oil (Brent blend)	$18.875	$18.675

GOLD (per ounce)

	Jan 15	Prev
London	$415.50	$419.25
Zürich	$416.55	$415.55
Paris (fixing)	$414.13	$413.75
Luxembourg	$415.50	$414.50
New York (Feb)	$417.00	$419.20

CURRENCIES

	US DOLLAR		STERLING	
(London)	Jan 14	Previous	Jan 14	Previous
$	—	—	1.5050	1.5060
DM	1.8425	1.8360	2.7875	2.765
Yen	153.55	152.75	231.0	230.5
FFr	6.1575	6.1350	9.2675	9.24
SFr	1.4560	1.5380	2.3275	2.315
Guilder	2.07	2.0775	3.1175	3.1275
Lira	1,305.50	1,309.50	1,965	1,972
BFr	37.95	38.25	57.10	57.60
C$	1.36275	1.3635	2.0490	2.0425

INTEREST RATES

	Jan 15	Prev
Euro-currencies (3-month offered rate)		
£	11 1/16	11⅛
SFr	3¾	3¾
DM	4⅞	4¾
FFr	9⅝	n/a
FT London Interbank fixing (offered rate)		
3-month US$	6⅞	6¼
6-month US$	6⅞	6⅝
US Fed Funds	5 15/16*	5⅞
US 3-month CDs	5.70*	6.025
US 3-month T-bills	5.35*	5.50

US BONDS

Treasury	January 15* Price	Yield	Prev Price	Yield
6⅞ 1988	100 5/32	6.19	100 5/32	6.214
7¼ 1993	100 7/32	6.93	100⅝	6.947
7⅛ 1996	101⅝	7.07	101 1/32	7.094
7¼ 2016	101⅝	7.39	101 9/32	7.38

Source: Harris Trust Savings Bank

Treasury Index

Maturity (years)	Return index	Day's change	Jan 15 Yield	Day's change
1–30	161.87	+0.06	6.87	−0.01
1–10	153.66	+0.07	6.57	−0.01
1– 3	143.20	+0.03	6.23	+0.0
3– 5	156.54	+0.07	6.65	−0.01
15–30	191.14	+0.03	7.81	+0.0

Source: Merrill Lynch

Corporate	January 15* Price	Yield	Prev Price	Yield
AT & T				
3⅞ July 1990	92.167	6.45	92.156	6.45
SCBT South Central				
10⅞ Jan 1993	106.125	8.535	108.125	8.536
Phibro-Sal				
8 April 1996	100.50	7.920	100.25	7.958
TRW				
8⅞ March 1996	104.125	8.079	104.25	8.080
Arco				
9⅞ March 2016	112.625	8.677	112.5	8.686
General Motors				
8⅝ April 2016	95.375	8.556	95.375	8.556
Citicorp				
9⅝ March 2016	104	8.984	103.75	9.007

Source: Salomon Brothers

FINANCIAL FUTURES

CHICAGO	Latest	High	Low	Prev
US Treasury Bonds (CBT) 8% 32nds of 100%				
March	100-07	100-22	100-05	100-03
US Treasury Bills (IMM) $1m points of 100%				
March	94.81	94.86	94.80	94.79
Certificates of Deposit (IMM) $1m points of 100%				
March	—	—	—	94.39
LONDON				
Three-month Eurodollar $1m points of 100%				
March	94.02	94.06	94.01	94.02
20-year Notional Gilt £50,000 32nds of 100%				
March	114-13	114-25	114-00	114-09

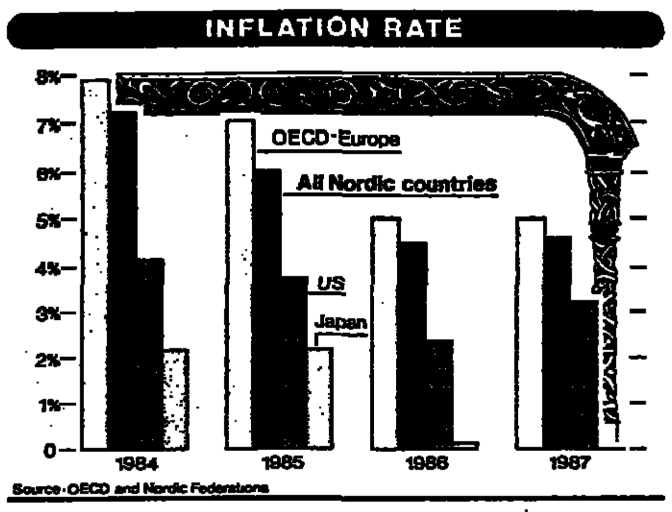
* Latest available figures

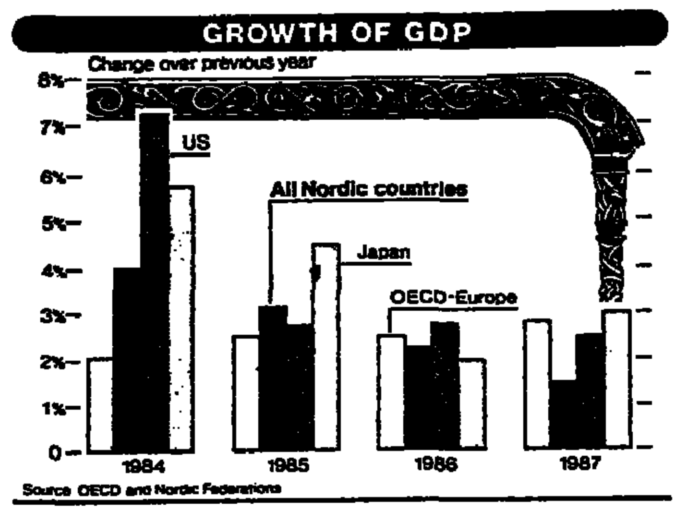
FINANCIAL TIMES SURVEY

Nordic Banking

FINANCE AND INVESTMENT

The five countries face different challenges as a period of high economic growth comes to an end. Meanwhile, the winds of financial liberalisation are blowing, though several of the region's regulations have yet to be abolished.





The pacesetters falter

THE NORDIC region has lost its brief role as one of the economic pace-setters in Europe. In 1984 and 1985 it enjoyed higher growth rates than those *achieved in most other parts of* Europe, but last year the region faltered and it will slip back further in 1987.

However homogeneous the region may appear from the outside, the five countries, Sweden, Finland, Denmark, Norway and Iceland, all confront different challenges.

Falling oil prices have been a boon to Sweden and Iceland, for example. But they have been a disaster for Norway, which is currently co-operating with Opec to try to repair some of the damage; while in Finland the oil price collapse has undermined the basis of the country's trading relations with its single biggest export market, the Soviet Union. The bilateral trade must balance, and Finland's main import from the Soviet Union is crude oil.

In the past 12 months Norway has devalued; it has changed government; its current account of the balance of payments has been transformed from one of the strongest to one of the *weakest in Europe; inflation* has soared; and the Government is still trying to apply the brakes to one of the most overheated economies in the OECD.

By Kevin Done, Nordic Correspondent, in Stockholm

"We had lived beyond our means and acquired a level of excessive private consumption for which there was no economic foundation," said Mr Gunnar Berge, Finance Minister in Norway's Labour Government, as he began a two-and-a-half-month battle—which finally ended in mid-December—to push the 1987 budget through the Storting, the Norwegian parliament.

"We have used more than we have produced and purchased ever more goods from abroad, at the same time that our exports have stagnated. Moreover, there *has been a sharp fall-off in oil* revenue. Since 1985 our balance of payments situation has deteriorated drastically. We must expect very large deficits both this year and next year."

In Finland, the authorities also caved in once to speculative pressures and allowed a mini-devaluation; but then resolve stiffened, and the Finnish central bank stood its ground and drove short-term interest rates up to 40 per cent in a belated show of muscle to the foreign exchange markets

The test of the authorities' nerve was almost invited, however, by the central bank's move to link its key call money rate to developments in the foreign exchange reserves. "Potential exchange rate speculation would rapidly cost both the speculator and its financier dear," warned Mr Rolf Kullberg, chairman of the Bank of Finland, who then had to sit out the crisis as interest rates soared to unprecedented levels.

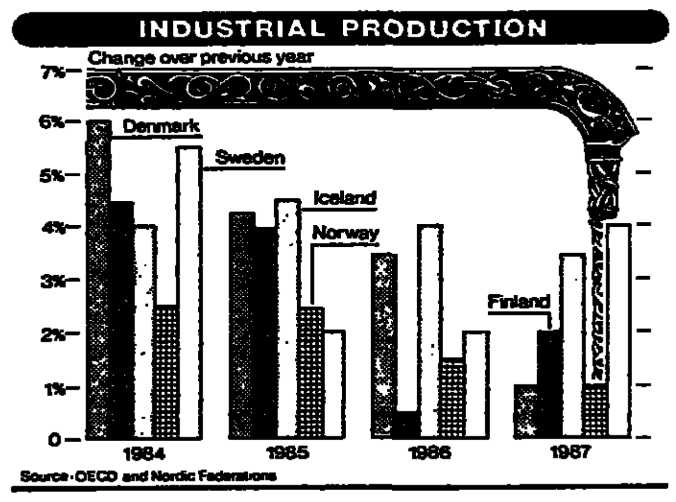
Finland plunged into recession in the first half of 1986 with only half a per cent growth in *gross domestic product, but had* come out the other side, before any one quite realised what had happened. A strike by civil servants held up the statistics.

After suffering for more than a decade from chronic external payments deficits, Sweden has left such headaches to Norway and Denmark and is uncharacteristically paying its way again internationally—albeit thanks largely to cuts in its oil bill and lower interest payments on its foreign debts.

The famed Swedish model for collective bargaining is looking badly tarnished, however, after one of the worst series of public-sector industrial conflicts on record. Sweden is *no haven of* industrial peace.

Denmark has endured unemployment rates that would bring down governments in neighbouring Norway and Sweden, although the picture has brightened more recently. Mr Poul Schluter's Conservative-led coalition has shown a quite un-Scandinavian resolve in attacking government spending, and in refusing to abandon the fight against inflation or the fight against any suggestion of a devaluation of the Danish krone as a way of easing the chronic external payments deficit.

The Danish krone is the only Nordic currency in the European Monetary System and, according to Mr Schluter, a stable exchange rate is "a fundamental law for this government."



In Iceland it is fish that count. *They still bring in three-quar*ters of the island's export revenues, and the country's fortunes tend to rise and fall with the catch levels. When the stocks failed in 1982 and 1983 Iceland plunged into deep recession and inflation soared above 100 per cent. Now the cod and the capelin have returned, and the island achieved the second highest growth rate in the whole of the OECD last year at an estimated 5.5 per cent, and even inflation may dip below 10 per cent this year.

Despite the differences, economic expansion in the major Nordic economies has been primarily dependent on domestic demand since 1985. With a weak development from this quarter expected particularly in Denmark and Norway, the outlook for 1987 indicates a growth rate of only 1.6 per cent for the entire *Nordic area, according to the* December forecasts of the region's industry federations.

The latest Economic Outlook, of the Organisation for Economic Co-operation and Development, published last month, is scarcely any more optimistic. Denmark and Sweden are forecast to have virtually the lowest growth rates this year of the whole of the OECD—with the exception of only Greece and New Zealand—with a growth in GNP of 0.5 per cent and 1.25 per cent respectively, although not all domestic forecasters are quite so pessimistic.

The OECD forecasts for Finland, Norway and Iceland all indicate a growth rate of some 2 per cent.

The fall in oil prices has contributed to lower inflation rates in Scandinavia—with the notable exception of Norway—but industry forecasts suggest a tendency towards increasingly higher inflation figures for the Nordic area than for the OECD average.

Strong domestic demand has meant high growth rates for imports of goods and services, which has reached almost 6.5 per cent in 1986, although the industry federations expect a much lower overall growth rate in 1987. Growth in exports of goods and services will be little more than 2 per cent in both years.

Private consumption rose considerably in 1986 at some 3 per cent, with a particularly large increase in sales of cars and other durable goods; but more restrictive economic policy could cut back expansion here to only 1 per cent this year. Growth in public consumption has slowed to only 1.5 per cent in 1986 and will fall further to 1 *per cent in 1987, according to* the industry forecasts.

Industrial production in the Nordic countries is forecast to grow by some 2.5 per cent this year, after 2 per cent in 1986, while the projected slow-down in overall economic growth is calculated to increase unemployment in the Nordic region to around 4.8 per cent in 1987 from 4.5 per cent last year.

The open Nordic economies, with their high dependence on foreign trade, are very susceptible to developments in the world economy. The importance of intra-Nordic trade and the inter-dependence of the five Nordic countries should not be underestimated, however.

Sweden accounted, for example, in 1985 for 13 per cent of Finland's exports, 12 per cent of Denmark's exports and 9 per cent of Norway's foreign sales. Norway took close to 11 per cent of Sweden's exports in the same year, Denmark more than 8 per cent and Finland close to 6 per cent.

If the Swedish economy in particular is in subdued mood, the effects are felt throughout the region, and Sweden itself is hardly drawing any growth impulses at present from elsewhere in the region.

While the rate of economic expansion may be weakening, the same can hardly be said for the pace of innovation and change in Scandinavia's financial markets.

The winds of financial deregulation and change may have begun to blow a little later in northern Europe, than in the world's main financial centres but the Nordic region can hardly resist the process of internationalisation and integration under way in world financial markets.

The willingness of the authorities to give up earlier regulatory and interventionist attitudes varies from country to country, and several bastions are still to fall throughout the region. Nordic financial authorities appear to accept that the process is irreversible, but there are differing opinions about the speed at which the

Continued on Page 10

CONTENTS

Sweden

Long-term competitiveness in doubt

THE SWEDISH economy has been in better balance during 1986 than for many years, helped substantially by the steep drop in the oil price, the fall in the value of the US dollar and lower international interest rates.

The current account of the balance of payments, which has run up almost chronic deficits for more than a decade, appears to be firmly back in surplus. Inflation has been cut back to its lowest level since the late 1960s. Interest rates have fallen. And the corporate sector is still yielding healthy profits to build on the recovery triggered by the 16 per cent devaluation in late 1982.

The current account recorded its strongest performance last year since 1973, and was in surplus for only the second time in 13 years. It is expected to show a surplus of more than SKr 12bn for 1986, a dramatic transformation from the deficit of SKr 10.4bn in 1985; and it is expected to remain positive this year, too, with a surplus of SKr 8.9bn, according to the National Institute of Economic Research's (KI) December forecasts.

There is another side to the picture, however, which is far more worrying. The Swedish growth rate is falling, and is forecast to be one of the lowest in the whole of the Organisation for Economic Co-operation and Development in 1987.

According to the OECD's December Outlook, Sweden's gross national product will grow by only 1.25 per cent this year, a performance which puts it ahead of only Denmark, New Zealand and Greece at the bottom of the OECD's growth league.

Admittedly Swedish forecasts are not quite so pessimistic, with the December report of the national institute suggesting that the economy could expand by 1.8 per cent in 1987. Last year, however, the pace of economic growth had already slowed more than feared to only 1.6 per cent, according to the KI report.

Nominal wage increases are still nearly twice as high as those of Germany or Japan, and interest rates are 2.5-3.0 per cent higher than in the US, with little prospect of the gap closing in the near future.

The rate of inflation, although half the level of a year ago, is still substantially higher than the average for Sweden's eight major trading partners, and only favourable exchange-rate movements have diminished the impact of this divergence on the country's international competitiveness.

In November the increase in consumer prices—on a 12 month basis—was down to 3.5 per cent, but the average for Sweden's most important trading partners was only 1.5 per cent in October.

The final inflation figure for December—due to be released late this month—has long been awaited with some trepidation. If it exceeds the ceiling of 3.2 per cent it will trigger the clause in the two-year national wage agreements for 1986-87, allowing the unions in both the private and public sectors to demand a renegotiation of the settlement, which, in the public sector at least, was reached only after months of protracted industrial conflict.

The rate of inflation is, in any case, expected to pick up again with the national institute expecting an increase of 4.5-5.0 per cent during the course of this year. Some price rises were simply postponed from 1986 into 1987—Swedish farmers were persuaded, for instance, to postpone planned food price increases by seven months until July at the cost of a SKr 1bn support package for agriculture—in a last-ditch effort to save the national wage agreement.

Whatever the outcome, however, the 1986-87 settlement already looks too expensive. After a series of strikes in the health service, municipal services and in public transport during the late spring and the autumn, the Government achieved one of its major objectives in denying the public sector unions the traditional clauses guaranteeing pay parity with the private sector.

The concession was won, however, only at the cost of a settlement on a level that Mr Kjell-Olof Feldt, the Swedish Finance Minister, had previously condemned as being clearly inflationary.

According to the latest economic survey from Svenska Handelsbanken, the increase in costs for the public sector employers is likely to be in the region of 14-15 per cent for the two years 1986 and 1987 taken together.

Wage increases in manufacturing industry have begun to moderate, but are still expected to have risen by 7-8 per cent in 1986, compared with an average increase of 4.5 per cent for the OECD countries. The corresponding figures for 1987 are estimated at 5.5 and 3.0 per cent.

Swedish companies have been losing market shares both abroad and in domestic markets, but for 1986-87 at least the damage to Sweden's international competitiveness has been offset by a "concealed" devaluation of the Swedish krona by 3 to 4 per cent, thanks to the workings of the currency basket against which the krona is measured, in which the US dollar is given a double weighting.

While doubts remain about Sweden's long-term competitiveness—with wage and cost developments still the Achilles' heel of the economy—concern has also been expressed about the continuing high level of private consumption, which has become one of the main motors of economic growth.

During the dark years of Sweden's slide into stagnation and recession, in the late 1970s and early 1980s, real disposable incomes and private consumption were hit hard; and, after the Social Democrats had returned to power in autumn 1982, the emphasis of the crisis economic programme was placed on export-led growth, with private consumption taking a back seat.

That picture has changed in the last two years, and the rise in private consumption in 1986 was the biggest for a decade at an estimated 3.2 per cent.

Kevin Done

Sweden: Demand and Output

	SKr (bn) (current prices) 1985	Percentage change in volume 1984	1985	1986	1987
Consumption	678.4	1.8	2.4	2.3	1.9
private	438.6	1.4	2.7	2.8	2.5
public	239.8	2.4	1.9	1.4	1.0
Gross fixed investment	164.8	5.1	6.3	0.0	3.5
residential construction	35.4	7.4	1.1	−5.0	5.0
private*	77.8	10.3	11.5	−0.5	5.0
public (non residential)	51.6	−2.8	2.9	4.7	0.7
Final domestic demand	843.2	2.4	3.2	1.8	2.3
Change in stockbuilding	−1.4	†0.7	†0.6	†−0.1	†0.5
Total domestic demand	841.8	3.2	3.9	1.8	2.8
Export of goods and services	303.6	6.7	2.3	2.5	4.5
goods	258.7	7.9	3.2	3.0	4.8
Imports of goods and services	282.9	4.5	7.7	3.7	6.8
goods	246.3	5.4	8.1	4.2	6.5
GDP at purchasers' values	862.5	4.0	2.2	1.4	2.4
Industrial production		5.6	2.0	2.0	4.0
Industrial investments		16.6	19.2	0.0	10.0
Producer prices		8.6	5.6	2.0	3.5
Price deflators					
consumer prices		8.3	7.2	4.5	5.0
export prices		7.0	3.9	0.5	3.5
import prices		3.7	2.9	−7.5	5.5
Trade balance SKr(bn)		24.4	16.1	34.0	28.0
Current balance SKr(bn)		3.3	−9.5	10.0	3.0
Total employments		0.8	1.0	0.6	0.4
Unemployment rate‡		3.0	2.8	2.7	2.9
Disposable income		9.1	9.3	7.7	7.5
Saving ratio of households		0.0	−0.1	0.1	0.4
Hourly wages in manufacturing		10.3	7.8	7.6	6.3
Unit labour cost (manufacturing)		5.2	5.6	6.0	3.0

* Incl merchant fleet.
† Change as percentage of GDP previous year.
‡ Registered unemployment as percentage of total labour force.
Source: Nordic Economic Outlook (Nordic industry federations)

Iceland

A recovery based on fish, oil and trade

AFTER THE DEEP recession of the first half of the 1980s, the volatile Icelandic economy has staged a strong recovery during 1986 with growth expected to reach as much as 6 per cent, the higest level for a decade.

The rate of inflation, which peaked briefly at more than 100 per cent during the early months of 1983, has been brought down to more manageable levels. Inflation during 1986 has fallen to around 11 to 12 per cent from 32 per cent during 1985.

The experience of living with soaring inflation is nothing new for Iceland, where the average annual increase in prices over the last 15 years has amounted to no less than 42 per cent.

The chief reasons behind Iceland's recovery have been large fish catches, falling oil prices and lower international interest rates, and an improvement in the country's competitive position against European currencies.

According to the Federation of Icelandic Industries favourable terms of trade and a further increase in marine production should also lead to growth during 1987. Although at a more modest rate. The organisation for economic co-operation and development (OECD) suggests that growth of the order of 2 to 2.5 per cent should be possible in 1987.

The Icelandic economy is overwhelmingly dependent on the fortunes of the fishing industry and the December economic outlook from the OECD says that fish stocks in general are still improving with a four per cent increase in the catch forecast for 1987.

During 1986 the fishing and fish processing industry is expected to have increased its output by 8.5 per cent according to the latest forecasts of the Central Bank of Iceland. The fish catches amounted to 1.24 million tonnes in the first ten months of 1986, some 1.3 per cent higher than the previous peak catches achieved during the same period of 1985.

Most important the catch of the more valuable white fish species such as cod, haddock and saithe has been increasing more than the total catch, giving a 7 per cent increase in the value of the catch.

The steep domestic recession in Iceland in the years 1982 and 1983 and the resulting unrest in 1984 in the labour market as the country adjusted to the sharp fall in national income, was chiefly caused by the serious drop in fish catches and the dangerous depletion of fish stocks.

Capelin fishing came to a complete halt in 1982 and the total catch bottomed in that year at 786,000 tonnes, while cod bottomed in 1984 at 282,000 tonnes.

Policies for fish conservation have cumulatively strengthened the stocks, however, and have allowed more securely based increases in the catch in the last two years. The recovery from the depth of the recession has been so strong that a new record catch was achieved in 1985 at 1,672 million tonnes. The Icelandic Industry Federation forecasts a marginally lower total catch for 1986 of 1.635 million tonnes, but a 6.5 per cent increase in the value of the catch.

Continued on Page 3

Iceland: Demand and Output

	IKr(m) (current prices) 1985	Percentage change in volume 1984	1985	1986	1987
Consumption	86,900	2.3	4.9	5.7	3.4
private	67,000	3.0	5.0	6.5	3.5
public	19,900	0.1	4.5	3.0	3.0
Gross fixed investment	23,730	7.1	0.0	0.0	2.2
residential construction	5,276	10.4	−15.3	0.0	10.0
private	11,900	13.9	16.1	4.9	−3.1
public	6,554	−1.7	−10.5	−8.8	6.0
Final domestic demand	110,630	3.5	3.7	4.5	4.0
Change in stockbuilding	−875	*2.3	*−1.0	*0.7	*1.5
Total domestic demand	109,755	5.8	2.7	3.8	5.5
Exports of goods and services	49,819	3.0	11.0	10.0	3.0
Goods	33,759	3.7	10.1	12.0	4.0
Imports of goods and services	49,051	9.3	9.7	5.2	6.5
Goods	33,760	8.9	8.7	5.8	7.0
GDP at market prices	110,523	3.4	3.1	6.0	4.0
Industrial production		4.0	4.5	4.0	3.5
Consumer prices		29.2	32.0	21.0	11.0
Trade balance IKr(m)		−332	−10	4800	3115
Current balance IKr(m)		−6130	−4816	200	−1035

* Change as percentage of GDP previous year.
Source: Nordic Industry Federations
Source: Nordic Economic Outlook (Nordic industry federations)

Norway

Now the hour of reckoning

NORWAY faces its most serious economic problems for many years as the country struggles to come to terms with the consequences both of lax economic management and collapsing oil prices.

The country's difficulties have been compounded by a volatile political situation in which no single party or coalition can establish a stable parliamentary majority.

As long as the oil price and the value of the US dollar were rising Norway could avoid the painful economic restructuring faced by many other western countries. From 1983 to 1985 domestic demand grew by 14 per cent while it rose by only 4 per cent in OECD Europe on average. Now the hour of reckoning has arrived and the inevitable retrenchment can no longer be postponed.

From 1985 to 1987 Norway has suffered a cut in its real disposable income of about 8.5 per cent or some Nk 38bn.

The Norwegian economy is running badly out of step with its main trading partners and a yawning gap has opened up in the current account of the balance of the payments. Inflation is rising rapidly after a surge in private spending and in response to both the severe cost pressures of a still overheated labour market and the 12 per cent devaluation imposed by the incoming minority Labour Government last May.

After a long period of political wrangling the Labour administration of Mrs Gro Harlem Brundtland managed to win sufficient support before Christmas from Norway's two centrist parties for the 1987 budget. This was only after the deep uncertainty about the country's economic prospects had set off a renewed wave of pressure against the Norwegian currency, which had to be bolstered first by heavy central bank intervention and finally by higher interest rates.

The budget is the first real sign for Norwegians that the party is finally over, although it remains to be seen how successful the precariously balanced Storting, the Norwegian Parliament, can be in creating a lasting crisis consciousness about the nation's economic predicament.

For the first time since 1981 the overall burden of taxes is set to go up. Inflation is rising fast and will outstrip increases in wages. Tobacco, alcohol, travel and electricity prices are all rising, gross income tax rates are being increased and food prices will rise as subsidies on items such as milk and meat are reduced.

It will come as little consolation to most Norwegians facing these harsher economic winds, that the country actually has a more favourable starting point than most countries that have had to implement an abrupt change of direction in economic policy. Most importantly the country has a low level of net foreign debt—thanks to the recent years of high oil income—and the state's finances are initially in a healthy position.

The problems, however, are considerable.

The surplus on the current account of the balance of payments of NKr25bn achieved in 1985 has fallen into a deficit of NKr33bn this year and is expected to deteriorate further in 1987 to a deficit of some NKr39bn.

As the government admitted earlier last year: "Norway is now experiencing the most serious economic crisis in many years. The country is confronted with far-reaching problems related to a sharply deteriorating balance of payments and a level of consumption which the nation cannot afford. The problems have been increasing in the past years and were exacerbated by the dramatic fall in oil prices."

In 1985 Norway registered the highest growth in private consumption in the post-war period at 8.2 per cent in volume, fuelled by rapidly rising wages and easily available credit. The strong growth continued into 1986. Private consumption in the first half was almost 7 per cent higher than in the same period of 1985.

The brakes are belatedly being applied but it is taking time for the economy to slow down. Even with only sluggish growth in the second half of the year private consumption for 1986 as a whole is expected to have grown at close to 5 per cent.

The pressures arising from strong wage drift and rising costs have seriously eroded the country's international competitiveness. Initially that has been redressed by the 12 per cent devaluation imposed in May last year, but the cut in the value of the Norwegian krone, was otherwise ill-timed.

The economy was already so overheated that there was little surplus capacity available to take advantage of the devaluation. By the time such capacity has begun to become available towards the end of 1987 and particularly in 1988, the sharp jump in inflation will have eroded much of the advantage gained, and a further devaluation could well be on the cards.

According to the Bank of Norway, the Norwegian central bank, inflation was running at an annual rate of about 9 per cent by the end of 1986 and is expected to rise to some 10 per cent between March and May, before moderating in the second half of the year.

For 1987 overall the central bank expects inflation to rise by some 7 per cent to 8 per cent compared with an increase of only about 2¼ per cent for Norway's most important trading partners, the same as last year.

On the most optimistic forecast Norway cannot hope to begin to close the inflation gap on its trading partners before the end of 1987. That presupposes a new round of wage negotiations in the spring which end in settlements closer to zero.

In 1986 wage levels rose by as much as 9 per cent, according to the central bank's latest economic report. Wages will automatically register further strong increases in 1987 as a result of the carry-over from last year and most especially because of the cut in working hours to a 37.5-hour week from January 1.

The development of labour-cost levels in 1987 will be one of the decisive factors in *determining how far Norway's* international competitiveness will be allowed to slide.

Norwegian industry has lost market share badly, both abroad and at home. The deficit on the trade balance for traditional goods (which excludes oil and shipping) has grown from NKr30.7bn in 1983 to NKr52.1bn in 1985 and about NKr75bn in 1986. As a share of gross national product—excluding oil and shipping—the deficit has grown from 9 per cent of GNP in 1983 to 16 per cent in 1986.

This dramatic deterioration was then laid bare by the collapse in oil prices. From November 1985 to November 1986 the crude oil price measured in Norwegian krone dropped by more than 50 per cent. This reduced at a stroke the value of petroleum exports from NKr85bn in 1985 to NKr50bn to 55bn in 1986.

The sharp fall in the oil price has had an equally dramatic impact on the state's tax revenues from the petroleum sector. Paid-in taxes and levies from oil and gas production have fallen from NKr51.5bn in 1985 to about NKr35bn in 1986 and will drop further to only some NKr17.5bn in 1987.

In the short space of 15 years since its first oil began to flow Norway has become hugely dependent on the petroleum sector. By 1985 it accounted for 19.7 per cent of gross national product, for 37.6 per cent of total exports and for about 21 per cent of the central government's total revenues.

The oil price, of course, remains a joker in the pack, but even the sort of increases that the Opec countries are trying to enforce would only have the effect of slightly reducing Norway's problems. They cannot solve them.

Kevin Done

Norway: Demand and Output

	NKr(bn) (current prices) 1985	Percentage change in volume 1984	1985	1986	1987
Consumption	334.5	2.5	6.8	3.8	−1.0
private	241.9	2.7	8.2	4.5	−2.0
public	92.6	2.0	3.4	2.0	1.5
Gross fixed investment	123.9	8.7	−21.9	18.0	−3.6
residential construction	21.1	22.8	−0.9	8.0	3.0
shipping and oil drilling	−1.8	—	—	—	—
production of oil and gas*	21.5	25.6	−41.5	75.0	−25.0
other investments	53.5	4.6	6.8	14.0	0.9
public administration	13.7	1.1	0.9	0.4	1.5
Final domestic demand	442.5	4.2	−1.6	3.4	−2.4
Change in stockbuilding	16.0	†1.3	†4.0	†−0.4	†0.5
Total domestic demand	458.4	5.7	2.7	7.7	−1.8
Exports of goods and services	235.0	7.5	10.0	4.2	1.7
goods		8.6	12.5	4.7	3.2
oil and gas	85.1	14.3	4.7	5.0	10.0
traditional goods‡	75.9	3.1	4.0	−1.0	3.0
Imports of goods and services		11.0	8.3	15.5	−5.5
goods	195.6	8.2	7.7	13.0	−3.7
traditional goods‡	128.0	13.8	11.8	14.0	−3.0
GDP at market prices	487.8	5.6	4.2	3.9	0.7
GDP excl the oil sectors	387.9	3.7	4.3	3.6	−1.5
Industrial production	67.3	2.5	2.4	1.5	1.0
Industrial investments	12.1	10.3	23.2	25.0	0.0
Consumer prices		6.3	5.7	7.3	8.5
Export prices§		11.8	3.6	−5.0	4.0
Import prices§		3.2	6.2	0.0	5.0
Trade balance NKr(bn)		41.6	39.4	−19.4	−28.7
Current balance NKr(bn)		24.4	25.6	−34.4	−46.2

* *Including pipe lines.*
† Change as percentage of GDP previous year.
‡ Excl. oil, gas, ships and oil equipment.
§ Goods, except oil and gas.

Source: Nordic Economic Outlook (Nordic Industry federations)

Iceland stages a recovery

Continued from Page 2

The US is one of Iceland's most important markets for fish products, and the fall in the value of the US dollar has inevitably channelled increasing containerised exports of fresh fish to Europe. Iceland's fishing industry has benefited too, however, from a big jump in prices on the US seafood market during the second half of the year, which has gone a long way to compensate producers for the depreciation in the dollar.

Fish and fish products account for around three quarters of Iceland's exports and the strong improvement in this sector's fortunes means that the country's total exports rose by some 14.7 per cent in value in the first nine months of the year. Other sectors too have expanded, although the energy-intensive metals industries have been hampered by low prices in the world market.

Aluminium exports, for example, increased by some 12 per cent in volume, but only 10.5 per cent in value and prices are not expected to increase in coming months. Prices have also been depressed for ferro-silicon, where exports have increased by 35 per cent in volume but only 9.4 per cent in value.

The Icelandic economy can *hardly* escape a *volatile* development, when it is so narrowly based, but there are signs that some new branches are gradually establishing themselves as export industries even though the quantities are still small. They include electronics, skins and leather goods and canned seafood.

The large increase in exports this year means that the current *account of the* balance *of* payments is again approaching balance after the heavy deficit of recent years.

The Icelandic central bank forecasts that the current account deficit could have shrunk in 1986 to only Ikr 2.2bn equivalent to 1.5 per cent of gross domestic product compared with a defecit amounting to 4.3 per cent of gross domestic product in 1985. In 1987 the deficit is expected to be virtually eliminated amounting to only 0.4 per cent of GDP.

Deficits on this modest scale could even allow some small reduction in the ratio of Iceland's mountain of foreign debt as a share of GDP, which is still as high as 51.5 per cent. The central bank considers that the foreign debt ratio could be down to 49.5 per cent by the end of this year.

There appears to be a good chance that the present upswing in the Icelandic economy can continue for the next two years as long as oil prices remain low and there is no further sharp drop in the value of the dollar.

Inevitably there is concern about domestic price trends, however, and the development of world fish prices is a factor of *considerable uncertainty*. Prices of seafood products have risen by some 30 per cent in US markets during 1986, offsetting the depreciation of the dollar, but if the trend is reversed export revenues would be seriously hit.

On the domestic front new wage agreements have been concluded for the private sector unions giving substantial increases for the lower paid, but more moderate increases for the better paid.

The industry federation believes that the wage agreement is compatible with inflation being held at around or even below 10 per cent in 1987, but there is still a worrying unrest in some sectors of the labour market, including the all-important fishing industry. With virtually full employment there is considerable pressure in the labour market, however, which could cause increased wage drift and push labour costs higher than expected.

Kevin Done

Nordic Banking 4

Denmark

Firm stand on the krone

DANISH economic policy has moved into a new phase—and so has the economy, which will grow much more slowly in 1987 than over the past three years.

While economic policy for several decades seemed to be mainly a matter of moving fiscal and monetary levers, primacy is now given by the present non-socialist coalition government to influencing people's behaviour (to persuade them of the benefits of low inflation and higher savings) and structural policies (relating education to the needs of business and industry and putting more resources into research and development, for example).

The change of emphasis reflects the Government's considerable success in tackling several of the problems that were most acute at the time it assumed office in 1982, and the one problem which has grown even worse—the deficit on the current account of the balance of payments, which has left the country, after 23 years with deficits, with a net foreign debt of around 40 per cent of the GDP.

Its successes include: a reduction in the rate of wage increases from around 10 per cent a year to about 4 to 5 per cent; the elimination of a large budget deficit, which was converted in 1986 into a small surplus; and a reduction in unemployment from almost 11 per cent to a current seasonally adjusted rate of about 7.8 per cent.

One of the Government's key instruments in reducing inflation expectations is exchange rate policy. The exchange rate is fixed (within the EMS). Despite a trade-weighted appreciation of about 5 per cent in 1986, as a result of the fall in the dollar and sterling, as well as the Swedish and Norwegian currencies, Prime Minister Poul Schlueter has emphasised on several occasions recently that the exchange rate is not going to be changed under any circumstances whatsoever. This is a warning as much to the Danish trade unions and employers as to currency speculators.

The Government's 1982 policies caused an enormous resurgence of confidence. This had the desired effect of causing a strong recovery in business and industrial investment and, which was less desirable, in private consumption spending. The recovery in domestic demand, however, sucked in imports and knocked the current external account even more askew than it already was. In the 12 months to September 1986 the current account deficit, at DKr 36bn, was about 5½ per cent of GDP.

The Government responded by tighening up fiscal policy (notably by raising energy taxes to keep the price to consumers at the same level as before oil prices began to fall) on three occasions within the past 12 months.

But its most important initiative in the longer term is an income tax reform, the effect of which was boosted by separate measures in October to penalise borrowing for consumer spending and to encourage savings.

The income tax reform ends the full deductability of interest outgoings. With effect from 1987, interest expenditure is deductable at a flat rate of 50 per cent. Previously the value of deductions was equal to the marginal income tax rate, or up to 73 per cent (more for wealth tax payers). Incomes from capital will also be taxed at a rate of 50 per cent.

The tax reform makes borrowing considerably less attractive, and saving more attractive, than it used to be; and, as Denmark has the lowest ratio of savings to GDP of any country, the reform is timely.

The impact of last year's fiscal measures and those to encourage savings, together with a cyclical levelling off in consumer spending and investment, will produce what Finance Minister Palle Simonsen calls "a growth pause" in 1987.

After GDP growth rates of 3.5, 3.9 and 2.7 per cent in 1984, 1985 and 1986, the finance ministry forecasts a growth rate of 1.1 per cent in 1987—and this is at the optimistic end of the scale of forecasts. Some of the banks predict zero growth, or even a fall in GDP.

The main influence on demand is private consumption, which, after rising by almost 5 per cent in real terms in 1986, will probably fall slightly in 1987. Business and housing investment will also decline. The current account deficit is expected to decline from DKr33-34bn in 1986 to around DKr20bn in 1987.

The final outcome in 1987 will depend very much on whether the decline in domestic demand is accompanied by faster export growth; and this, in turn, will depend on the most crucial economic event of 1987, the spring renewal of the two-year collective wage agreements.

The wage negotiators are faced with a tricky starting point, as a cut in the working week from 40 to 39 hours in December 1986, and an increase of 1½ per cent in employer social security taxes, means that hourly wage costs will rise by 4 per cent before the two sides even sit down at the bargaining table.

But if the decline in the current external deficit, which will be brought about by falling domestic demand in 1987, is to be consolidated when demand recovers in 1988-89,' a wage settlement compatible with a new reduction in infaltion—consumer prices are rising by about 4½ per cent on a 12-month basis—seems esential.

Hilary Barnes

Denmark: Demand and Output

	DKr (bn) (current prices) 1985	Percentage change in volume 1984	1985	1986	1987
Consumption	492.2	1.5	4.0	3.0	0.0
private	336.8	2.7	4.9	4.0	0.0
public	155.4	−0.9	2.2	1.0	0.0
Gross fixed investments	113.6	10.0	13.1	10.0	−5.0
dwellings	26.4	17.0	0.0	12.0	−8.0
private business	73.4	9.0	19.0	12.0	−6.0
energy-sector etc*	19.5	−19.0	19.0	15.0	−10.0
other private business	53.9	24.0	19.0	11.0	−4.0
public	13.9	2.0	12.0	−5.0	5.0
Final domestic demand	605.8	2.9	5.6	4.5	−1.0
Change in stockbuilding	6.0	†1.2	†−0.2	†−0.5	†−0.5
Total domestic demand	611.8	4.1	5.4	4.0	−1.5
Exports of goods and services	226.3	4.2	4.0	1.5	3.5
Goods	180.0	5.5	4.5	1.5	3.5
Imports of goods and services	224.9	6.1	8.2	6.5	−2.5
Goods	191.3	6.8	8.4	7.0	−3.0
GDP at market prices	613.3	3.5	3.9	2.5	0.5
Industrial production		6.0	4.3	3.0	1.0
Industrial investments		29.0	23.0	14.0	−2.0
Consumer prices		6.3	4.7	3.5	2.5
Export prices		7.6	3.5	−4.0	2.0
Import prices		8.3	2.1	−10.0	0.0
Trade balance (fob/cif) BnDKr (bn)		−6.5	−11.9	−13.5	0.0
Current balance DKr (bn)		−18.8	−28.4	−33.0	−20.0

* Oil and gas sector, shipping, electricity, gas and water and public utilities.
† Change as percentage of GDP previous year.
Source: Nordic Economic Outlook (Nordic Industry federations)

Finland

Positive factors to cheer up pessimists

MOST ECONOMIC indicators in Finland spell good times ahead but, as pessimism is the country's prevailing philosophy, the general perception among Finns is that the country is heading for the worst.

This contradictory situation emerged simply because the price of oil imports from the Soviet Union has fallen sharply during the past 12 months. The logic goes that since the value of imports from the Soviet Union declines as does the value of exports (because of the barter trade agreement), Finnish companies are not able to offset the loss immediately by exporting more to the competitive Western markets.

All that is sound enough. But at the same time several factors speak for improved prospects for exports and the economy as a whole.

The overall effect of the drop in oil prices is, of course, good for the country, the way it is good for all non-producing nations. Other positive factors in Finland include the recent corporate tax and energy tax reforms both of which were aimed at reducing the companies' tax burden. The two per cent mini-devaluation in May also made Finnish exporters more competitive.

The GDP growth took a slight dip from the constant 3 per cent during the first half of the decade to 2.5 per cent in 1986. So the effects of the Soviet trade have not created serious macro-economic problems.

Other indicators are not too bad, either. Inflation came down to 3.5 per cent in 1986 from 5.9 per cent in 1985. Unemployment in 1986 will be around 6 per cent which is less than in most other Western countries, but still a major worry of Finnish politicians.

Another concern is that most Finns may, in fact, have it too good in 1987. Lower inflation, coupled with tax reductions and substantial pay increases last spring, has left most people with so many extra markkas in their pocket that now there are inflationary pressures.

These pressures together with the export problem and the devaluation in Norway last spring caused two separate rallies on the Markka last year. After the 2 per cent devaluation in May the Bank of Finland decided to stay firm in August during another wave of speculation. The central bank resorted to the call money rate weapon and hiked the rate that determined all short-term borrowing to 40 per cent where it stayed for one week.

The industry and the banks expressed grave concern over the effects of the high interest rates on investment activity. The central bank recently published a survey in which it claims that overall investments will grow by 5 per cent in 1987 and industrial investments by 10 per cent. This according to the central bank, proves the fears unfounded.

Finland's exports totalled about FM 82bn in 1986, down 2 per cent from 1985. Finland will run a surplus of about FM 6bn since declining raw material prices will drag the value of overall imports down by 8 per cent.

But the Soviet Union will, according to estimates, accounts for only some 17 per cent of Finland's external trade, down from the high of 26 per cent in 1983.

Elsewhere in foreign trade, prospects are clearly better. Demand in the Western markets is good but quick results are difficult to achieve and the picture varies from one industry to another.

The forest industry, which still makes up about a third of the country's industrial production, has come out of the woods. First, demand is good and paper and paperboard mills are operating at near full capacity. Secondly, the industry has gone through a massive reorganisation during the past 12 months.

Kymi-Strömberg merged with Kaukas about a year ago. It went on to sell off the metal industry division Strömberg to Asea of Sweden which enables Kymi-Kaukas to concentrate solely on forest industry. Then Metsäliitto and Serlachius joined their forest industry businesses.

In another development three smaller companies in the North of Finland rearranged shareholdings to make more competitive units. And about a month ago the country's biggest forest industry company Enso Gutzeit bought a number of paper and board making plants from Ahlström which now concentrates only on engineering and some special paper grades.

Metal and engineering which makes up another third of the industrial production, has bleaker prospects. This is mainly due to problems in the trade with the Soviets. The shipbuilding companies, for example, traditionally sell about two thirds of their output to the Soviet Union.

Now, orders from Moscow have practically dried up. The worsening market situation prompted Finland's two leading shipbuilders, Wärtsilä and Valmet, merge their respective shipbuilding and paper machinery operations.

Finland's labour costs keep persistently above those in the main competitor countries. This remains a nagging problem for the economy as a whole and will add pressures towards the currency on the long run. It also means that Finnish companies will not be able to compete on the price. So, they will concentrate on narrow niches where a number of high tech companies enjoy a leading position globally.

Olli V. Virtanen

Finland: Demand and Output

	FIM (bn) (current prices) 1985	Percentage change in volume 1984	1985	1986	1987
Consumption	247.8	2.7	3.7	3.0	3.0
private	180.2	2.7	3.4	3.0	3.0
public	67.4	2.8	4.3	2.8	3.0
Gross fixed investment	78.3	−1.8	3.2	1.0	1.5
private	67.9	−1.7	3.3	1.0	1.5
public	10.4	−2.3	2.5	2.8	3.0
Final domestic demand	326.1	1.6	3.5	2.5	2.5
Change in stockbuilding*	5.9	†−0.4	†1.2	†0.8	†0.5
Total domestic demand	332.0	1.2	4.7	2.5	3.0
Exports of goods and services	98.8	6.0	0.3	−0.5	0.8
Goods	84.9	8.2	1.0	−0.5	−0.5
Imports of goods and services	95.9	1.1	6.0	2.5	3.0
Goods	81.4	−0.5	5.9	1.5	2.0
GDP at market prices	334.9	2.8	2.8	1.5	2.5
Industrial production		4.4	3.9	0.5	2.0
Industrial investment		8.4	10.4	4.0	−3.0
Consumer prices		6.9	6.0	3.5	3.0
Export prices		7.6	2.8	−3.8	2.0
Import prices		4.8	2.5	−9.0	1.8
Trade balance FIM(bn)		5.5	2.0	4.2	4.7
Current balance FIM(bn)		−0.1	−4.7	−3.5	−4.4

* Including statistical discrepancy.
† Change as percentage of GDP previous year.
Source: Nordic Economic Outlook (Nordic Industry federations)

■ Gabriel Urwitz (left) and Robert Weil: Proventus

Rousing financial services

ASK ANY stockbroker in Stockholm who are the movers and shakers in Swedish financial circles today, and the list tends to include two men in their late thirties who have recently set about revitalising the banking sector.

Mr Robert Weil and Mr Gabriel Urwitz, are the chairman and managing director respectively of Proventus, a holding and investment company, which will be the main shareholder in a new banking and financial group with total assets of SKr 70bn.

Mr Weil's route to the top is far from orthodox. He left school at the age of 17, but had already started buying and selling shares and used to sit behind the bench at the stock exchange ("it was before the telecommunications boom," he adds), picking up whatever information he could about the companies.

When he was 20, he started working for Praktikertjaenst, a medical organisation, and trained as an investment manager for the private dentists' and doctors' pension fund. After the oil shock years, which had a crippling effect on the Stockholm bourse, he left and eventually bought Proventus which chiefly has interests in property, glassware and silverware, but which bought a 42 per cent stake in Gotabanken, Sweden's fourth largest publicly quoted bank in 1985.

He brought his friend Gabriel Urwitz (the two had met at a summer camp many years before) in as managing director of Proventus in 1984.

Mr Urwitz has a more conventional background. He studied at the Stockholm School of Economics, won a Fellowship to the US and became interested in the bond markets. He stayed on to teach at Columbia University before joining Skandinaviska Enskilda Banken, Sweden's largest bank, in the domestic capital markets division.

In 1980, aged 29, he became the head of the stockbrokerage Haeggloefs, and brought in new management and colleagues from Skandinaviska Enskilda Banken in a bid to build up the bond and fund management side and widen the company's business scope. He fell out with the main owners, B&B Invest, over Haeggloefs' rapid expansion and joined Proventus in 1984—though he now has the satisfaction of seeing Haeggloefs under the Proventus umbrella, since the Bonnier family (which has substantial interests in the Swedish publishing business) sold its 42 per cent stake in December for SKr 620m.

The acquisition of 42 per cent of B&B Invest was part of the Proventus plan to build up a new banking and financial services group under a holding company called Gota, which would encompass investment and commercial banking, stockbroking, real estate and finance companies.

Mr Urwitz argues that the holding structure is the only means by which a banking group can expand its financial services. According to Swedish banking legislation, a bank cannot own shares in other companies, so it cannot own a stockbrokerage (although it may offer its own stockbroking services) and may only own certain kinds of finance companies.

Proventus already controlled 46 per cent of Gotabanken—though that deal also sparked off heated debate about bank ownership and led to the head of the bank inspection board recommending that bank ownership should be limited to 10 per cent.

Now Proventus plans to exchange its Gotabanken shares for shares in Gota, which in turn will bid for up to 75 per cent of Gotabanken, 75 per cent of Wermlandsbanken, and 100 per cent of B&B Invest. The share bids will cost about SKr 2.12bn.

Mr Urwitz says that the bank ownership will be limited to 75 per cent "for the time being," but makes no secret of the plan to expand by acquisition.

With increased competition, both internationally and in the domestic market, he plans to strengthen the investment banking and fund management side.

He also has ambitions to shake up the rather sleepy finance company sector, expanding the leasing and financing business.

Sara Webb

■ Björn Wahlroos: Union bank of Finland

An activist at the deep end

IN FINLAND'S banking community his was the appointment of the year, if not the decade. Undoubtedly Dr Björn Wahlroos was talented, presentable and had international experience in financing—qualifications Union Bank of Finland valued in its new deputy general manager for money and capital markets.

But for an establishment that values traditions perhaps more than most in Finland the choice of Mr Wahlroos was as radical as the man himself. First of all he was unashamedly outspoken, a former leftist student activist who had done his career exclusively in the confines of the academy. And he was only 33 years of age.

Nevertheless, UBF felt a need for fresh talent and chairman Mika Tiivola invited the young, fervently monetarist professor, to join the bank's board of directors.

That was 15 months ago. Since then Finland's money and capital markets have seen a small revolution and Mr Wahlroos has played a substantial role in the development.

He was thrown in at the deep end. Just days after taking his position UBF began to amass shares in Bank of Helsinki, another commercial bank, to counter a rivalling takeover bid. Mr. Wahlroos says that he was only "one of the team" that led UBF to win the battle for BoH after a week of fierce fighting but his experience of the American capital markets, obtained as visiting professor to two East Coast universities, certainly contributed to the success.

No less dramatic has been the development of Finland's money markets. Finnish banks have traditionally funded their operations with deposits but during the past few years market money has become increasingly important.

So much so that Mr Wahlroos estimates market money to contribute over half of UBF funding for the first time in 1987.

Mr Wahlroos is in charge of the bank's funding, equity positions, foreign exchange and money market operations. He estimates that Finland is four years behind Sweden in developing money market instruments but the revolution is now on. New instruments are being introduced to the market at an increasing pace. This applies particularly to short-term corporate financing.

Mr Wahlroos takes commercial papers as an example. UBF made the first commercial paper programme in April 1986 for Nokia, Finland's largest industrial corporation. That totalled FM75m. To date, UBF has made 20 programmes worth a total of FM1.5bn commanding a market share of about 65 per cent of all commercial paper programmes in Finland.

If free market forces are to Mr Wahlroos what water is to fish, he is surprisingly supportive of the policy adopted by the Bank of Finland.

The central bank may have been slow to interpret market pressures between 1971 and 1983, he says, but during the past three years it has been

quick to react.

He refers to the abolition of the banks' maximum mean lending rate last summer and the gradual shift of emphasis from the rigid base rate to more flexible call money rate and further to certificates of deposit.

Mr Wahlroos readily admits that he feels comfortable with the stamp "monetarist." This liability, as he puts it, is much more common elsewhere than in Finland. Hence, his public comments are often refreshingly blunt.

Olli V. Virtanen

■ ASEA

A big player in the money game

WHEN ASEA, the Swedish electrical engineering group, moved into the financial services field two years ago, it took General Electric Credit Corporation (GECC) as its role model.

The problem for ASEA was how to squeeze GECC's achievements over the past 50 years into just a couple of years, according to Mr Lars Thunell, the finance director who was brought in three years ago from American Express to head ASEA's financial services.

In common with many Swedish companies, which until quite recently were restricted in their investment opportunities by foreign exchange regulations and thin markets, the surplus cash was simply building up.

ASEA also needed to develop the financial services sector for its own project financing. In addition, the acquisition of an insurance company—in ASEA's case, of Sirius—provides important tax sheltering possibilities in Sweden and meant that ASEA paid corporate tax at a rate of 15 per cent instead of 25-30 per cent.

Today, ASEA's financial services and trading division covers stockbroking, insurance, project finance, corporate finance, countertrade, and banking functions in connection with loans and money market operations.

In 1986, it had estimated total assets of SKr 12bn, a turnover of SKr 6bn, and profits of SKr 400m, accounting for about 15 per cent of group profits.

"I go out of my way to say that we are not trying to compete directly with the banks here in Sweden, but there have been changes in the banking sector and our move into financial services has been a part of that trend," Mr Thunell says.

Kapitalfoervaltning manages ASEA's liquidity in Sweden and was set up to maximise the return on liquid assets, while minimising the funding costs and foreign exchange risks. The company uses the carrot rather than the stick, borrowing from ASEA subsidiaries at an above market rate (less than 1 per cent above) and investing the funds in the money and capital markets.

Its main function is to manage the foreign exchange business, such as internal foreign exchange contracts, investments and borrowings. Kapitalfoervaltning's net assets were about SKr 5bn in 1986. It is a big player in the money market, and in terms of options contracts, Mr Thunell claims it trades the same volume as a medium-sized Swedish broker.

Electro-invest, ASEA's trading company, does countertrade business for the group companies. Turnover is SKr 3.4bn, of which countertrade and bartering operations account for SKr 600m.

Electro-invest recently took over Kaiser International's operations. The company trades coal, aluminium, ferro alloys, zinc, tin, and steel, and the acquisition gave ASEA a worldwide network of offices. Countertrade allows ASEA "to sell things we wouldn't have sold otherwise but which we exchange for commodities for the industrial side," Mr Thunell says.

Sirius, the insurance and reinsurance company was acquired at the end of 1985, and is one of the externally-oriented areas of ASEA's business.

About 90 per cent of the business (international reinsurance, marine insurance/reinsurance) goes to outside corporations. The internal business consists mainly of credit and political risk insurance. The aim is to minimise ASEA's insurance costs and offer attractive reinsurance deals for the subsidiaries.

Sirius played an important role in winning ASEA an order from Istanbul for a light-rail mass transit system in a deal worth SwFr 660m. The Swedish Government covered half of the risk, while ASEA syndicated 16 banks, managed the insurance and foreign exchange aspects.

Another externally-oriented field is stockbroking. ASEA bought Winston Hakanson & Co, a small firm with about 1 per cent of the market share. ASEA put in new management, renamed it Aros, and says it has now increased its market share to 3 per cent.

Aros does securities issues, mergers and acquisitions, and portfolio management for ASEA. Externally, it concentrates on stockbroking, capital markets, corporate finance, and portfolio management.

ASEA Capital Corp, a Dutch company with a Swiss branch office, started up in July and now handles borrowing internationally and foreign exchange, offering attractive funding to group companies.

Mr Thunell's favourite strategy is to try things out in-house first—"to get the critical volume"—before offering services to outside customers. His next goal is to expand the leasing side of ASEA's business in order to give sales support in Sweden and internationally, and to improve the chances of financing industrial projects.

Sara Webb

■ Mrs Bodil Nyboe Andersen: Andelsbanken

Theorist grasps realities

MRS BODIL NYBOE ANDERSEN'S career began as a theorist-without-responsibility, an academic at Copenhagen University. She specialised in international economics, money and banking. But those days are over. As one of the four members of the board of management of Andelsbanken she is being forced to pit her theory against banking realities.

"Having worked with the problems academically, it is exciting to see how things really work, and to have to accept responsibility for the approach one advocates," she said.

So far, Mrs Nyboe Andersen's venture into the world of practical banking has been an evident success, both for the bank and her personally. "I like it. It's exciting," she said.

The bank, which has its roots in the Danish co-operative movement and ranks sixth in terms of balance sheet, was going through a bad patch at the turn of the decade. Since then it has been turned round and is now one of the country's most profitable.

Mrs Nyboe Andersen doesn't claim special credit for this, which is due to a team effort; but her abilities have obviously impressed the bank, as she has been nominated to become chairman of the management board—the bank's chief executive—in 1988 when the present chairman, Mr A. C. Jacobsen, retires.

She is probably the most senior woman banker in Europe, possibly in the world, and her career has not necessarily reached its peak yet.

She is one of the people often named as a potential successor, in a few years time, to Mr Erik Hoffmeyer as governor of the National (Central) Bank, a possibility on which she declines to comment.

Mrs Nyboe Andersen, aged 46, tall, and with a relaxed but self-assured and highly articulate presence, says that one of her biggest problems was that her father, Prof Poul Nyboe Andersen, was a member of the bank's management board before her. While this might have been an advantage in a private bank, family connection counts for nothing in the world of Andelsbanken and was rather an obstacle to be overcome.

While at the university, she built up her reputation by a lively participation as lecturer and writer outside the university sphere, and was on various committees and boards in both the academic and financial world, which was where Andelsbanken made her acquaintance.

But one of the issues in which she did not get involved was the 1970's feminist debate. "Agitation is not me," she said.

The fact that she is a woman in a top job is not something she thinks about daily. "It is more interesting to the outside world than it is here at the bank. I don't feel it either as an advantage or a disadvantage," she said. "I am here to look after the interests of the bank, not the interests of women."

But she admits that she keeps an eye open to see that women are given the opportunities due to them.

Her areas of responsibility at the bank are capital management, international business, data processing and the management secretariat which includes the bank's information functions, both outward and inward. All four directors have extensive contacts with the bank's branch network, however. Under the present management, the bank has undertaken an extensive decentralisation to 56 regional areas, with from one to eighteen branches.

Each region is expected to meet certain budget and profit targets, but within these guidelines the regions are permitted to vary their interest rates and charges in order to be able to compete with other local banks.

The flattening of the management pyramid has been accompanied by emphasis on service and has required an extensive educational programme.

The four board members each meet a quarter of the regional groups once a year. All staff are invited and no questions are barred, in a process which is known as management by information, rather than by instruction.

Hilary Barnes

Sweden

Storm over money for universities

How the big four performed

1985	S-E-Banken	PKbanken	Handelsbanken	Götabanken
Balance sheet total	174,098 Kr (m)	158,063 Kr (m)	164,750 Kr (m)	45,422 Kr (m)
Profit	2,248 Kr (m)	1,559 Kr (m)	1,970 Kr (m)	572 Kr (m)
Credit Loss	489 Kr (m)	316 Kr (m)	472 Kr (m)	100 Kr (m)
Equity yield, after tax	16.9%	16.0%	18.5%	21.7%
Solidarity	2.8%	3.2%	3.4%	3.2%
Number of offices	349	134*	452	158
Number of employees	6,954	5,650	5,361	2,452
Number of share holders	90,000	20,612	65,775	15,485

*(+2,200 post offices)

Source: Annual reports.

SWEDISH BANKERS, not normally noted for their excitability, have been forced to reach for superlatives to describe the year 1986. The banks have rarely had it so good as a happy combination of events has contrived to produce record profits for the sector.

The banks have been basking in a degree of freedom they have not enjoyed for decades thanks to a far-reaching de-regulation of the domestic credit market, which has allowed them to win back market shares from the finance companies and other competing institutions in the so-called grey market.

At the same time, they have reaped the benefits of falling interest rates and surging commission rates from a booming stock market. Profits have soared to such an extent that the banks have even proved amenable to a government initiative to pour some SKr600m over the next three years into funds for research and development projects at the country's universities and other institutions of higher education.

The scheme has aroused a storm of protest from the non-socialist opposition parties, particularly the conservative and liberal parties, which have accused Sweden's Social Democratic Government of blackmailing the banks into siphoning off part of their record profits as the price of avoiding increased taxation.

The scheme must still be put to a vote of the shareholders of each of the commercial banks taking part, and the banks' annual meetings during the spring could prove controversial occasions as the opposition political parties sense a new issue on which to score points against an apparently well-entrenched Social Democratic Government.

According to Mr Lars Tobisson, the deputy chairman of the Conservative Party, the Government has chosen a short-cut around the political decision-making process by cancelling out the Swedish Parliament's right to decide on taxation matters.

Both the savings banks and the co-operative banks have refused to participate in the research funds. Mr Erik Ehn, chairman of the Swedish Banking Federation, denies that the banks faced any threat of a one-off excess profits tax, but he admits that the development of the banks' profits during 1986 had made them more amenable to the Government's proposal.

Mr Ingvar Carlsson, the Swedish Prime Minister, has argued that with the state's finances under strain, the bank-financed research funds are a way of boosting the resources for basic research at the universities in a way that can ultimately benefit Swedish industry and, therefore, the banks.

The opposition is not giving way, however, and the conservatives have referred the whole scheme to the Parliament's constitution committee for closer examination.

There is no denying, however, that the banks have enjoyed a uniquely profitable year. Banking sector share prices had jumped by 81 per cent by mid-November, out-performing the total stock market index, which itself had increased by some 59 per cent since the beginning of the year. In the 12 months to mid-November Swedish bank share prices had risen by no less than 107 per cent.

The profits of the big banks have virtually doubled, thanks to the series of favourable factors, and at least two banks, Skandinaviska Enskilda Banken, Sweden's biggest bank, and Östgötabanken, a small regional bank, have seized the opportunity to approach the equity market for new capital.

S-E Banken has raised SKr700m in a one for 15 rights issue, one of the biggest domestic share issues in Sweden, backed by a 96 per cent increase in group operating profits in the first eight months.

Svenska Handelsbanken, the country's second largest commercial bank, boosted its operating profits by 91 per cent on the first eight months of 1986 to SKr2.24bn, while the operating profits of the parent bank rose by 109 per cent to SKr1.9bn.

With the Swedish economy apparently in better balance than for several years interest rates have tumbled during 1986, helping to fuel the big jump in bank profits. In the first eight months of 1986, Swedish money market rates were four percentage points lower than in the corresponding period of 1985, while the discount rate was 1.6 percentage points lower.

The Riksbank, the Swedish central bank, lowered the discount rate four times during 1986, most recently in September, and at 7.5 per cent it was at its lowest level at the beginning of 1987 since the summer of 1979.

With the growing development of the money and bond markets and with new instruments for conducting monetary policy, the discount rate no longer plays a central role in influencing the movement of interest rates in Sweden, but the Riksbank has used discount rate cuts to "confirm the establishment of a generally lower level of interest rates."

The Swedish banks and other financial institutions are still awaiting the outcome of the deliberations of the government-appointed credit market committee to discover the exact legislative framework they will be operating under during the 1990s, but regardless of such changes the financial markets have shown an almost explosive development and growth.

At the same time, plans put forward recently by Proventus, the investment company, to form the Gota group, with a holding company controlling two commercial banks, Gotabanken and Wermlandsbanken, clearly boldly challenges the spirit of existing banking legislation.

The markets have developed rapidly as the Swedish state needed to tap new sources of funds to finance its mushrooming budget deficits during the second half of the 1970s. It could no longer finance such large deficits through the banks and in quick succession a series of new instruments were introduced to allow it to raise funds directly from the market.

Markets for dealing in these instruments have grown quickly—a money market with an annual turnover of more than Skr 1,500bn has emerged in barely six years—and inevitably the number of actors in the market has increased accordingly.

Only ten years ago there was only a handful of finance companies operating in Sweden, today there are more than 240. During 1986, too, the number of commercial banks operating in Sweden has doubled to 24 with the arrival of 12 foreign banks. The number of stockbroking firms has risen from seven in 1980 to 21 today.

Buoyed up by the high profit levels achieved during the past 3-4 years the big industrial corporations have also been playing a far more active rôle in the financial markets, and are increasingly establishing their own independent operations in financial services.

The foreign bank's operations have become firmly established during the second half of 1986. Sweden was virtually the last country in the western industrialised world to permit foreign banks. But they are now providing an important new source of competition for the domestic banks, particularly in servicing the international needs of the country's big multinational corporations.

The new foreign arrivals are led by no fewer than five French banks, Société Générale, Banque Nationale de Paris, Banque Indosuez (in a joint venture with Finland's Postipankki), Credit Lyonnais and Banque Paribas. They have been joined by Citibank and Manufacturers Hanover from the US, den norske Creditbank, and Christiania Bank from Norway, Kansallis-Osake-Pankki and OKO Bank from Finland, and the Dutch Algemene Bank Nederland.

The two most significant steps that were taken in domestic credit market reform to shape the 1986 banking year were the moves to dismantle controls on the volume of bank lending and the interest rates they can charge.

"For us in banking, November 21, 1985 was liberation day" says Mr. Erik Ehn, chief executive of Nordbanken who was elected late last year as chairman of the Swedish Banking Federation. that was the day that lending volume controls were removed.

"Credit flows have changed. for commercial bank we see a strong and clear upward trend, In particular since April. The finance companies have had to give up market share, and the so-called grey market has definitely lost market share." New loans from the mortgage institutions to households jumped by 70 pr cent in the 12 months to September.

As Skandinaviska Enskilda Banken declared in one of its quarterly reviews this year, "it would be no exaggeration to say that 1986 will be a remarkable year for the Swedish credit market. Conditions have changed drastically."

The most recent reform in the Swedish market was implemented in the late autumn of 1986 with the abolition of the obligation on the life insurance companies and pension funds to invest in so-called priority bonds. These bonds, variously used since the 1950s to provide long-term finance for the, state, house-building and agriculture, have previously been forced on the insurance companies, pension funds and earlier, the banks at below market interest rates.

As new instruments and markets have mushroomed it has recently become apparent that Stockholm is soon to have a second options market, only 18 months after the first Swedish options market was established.

OM is claimed to be one of the most successful financial innovations introduced in Sweden, and perhaps as a result it is soon to face competition from a new market to be called the Swedish Options and Futures Exchange (SOFE-),which is launching stock market index options and futures and later options and futures pegged to Treasury bills and state bonds.

The one area where the Swedish authorities have moved more slowly to remove controls is foreign exchange regulations, but even here some preliminary steps were taken during 1986. Swedish corporations making direct investments abroad are no longer forced to finance such investments through foreign currency loans.

Kevin Done

Finland

Market forces are given their head

FINLAND'S FINANCIAL markets are in the grips of four separate developments: deregulation, internationalisation and introduction of new instruments and new technology. All of these developments gathered speed during 1986 and they lead to several proposals for laws to govern the rapid progress.

The Bank of Finland has consistently followed its policy of giving more room to market forces. It has done away with most of the regulations that control the banks' leading. These include a quota system and most of the interest rate regulations.

The once omnipotent base rate has practically lost all its importance, particularly to corporate clients, while the call money rate, and, even more recently, the introduction of new "reference rates" for short- and medium-term lending, now closely reflect the market forces.

Most capital movements across the border, particularly the trade related ones, are now free, with the notable exception of selling markka-denominated bonds and debentures to foreign investors. The central bank banned this in June 1985 after speculators played on higher interest rates in Finland and raised the total of new issues to FM 4.3bn in just the first six months of that year. This was several times over the total for 1984.

Another major regulation still in effect is the deposit rate cartel which is required by the law on tax-exempt deposit rates. There will be growing pressures even among banks to abolish this system and enable them to compete with the deposit rates the way they have already started with the lending rates.

A simple reason to the change of mind is that deposits are becoming less important as a source of funding as the volume of market money grows.

Market money, which began to make itself felt in spring of 1983, is ever more actively looking for a home and there is an increasing number of homes available. First the banks try to attract part of the flow by developing new instruments which enable them to offer competitive interest rates.

The new instruments include certificates of deposits and commercial paper programmes. Corporate bonds and debentures also attract investments, while government bonds still enjoy the advantage of yielding tax-free interest.

In addition to banks there are various kinds of financing institutions, many of which have segmented their operations on certain kinds of services.

All this means that competition among Finnish banks is growing. The four foreign banks in Helsinki have contributed to this, so much so that one of them, Chase Manhattan sold off its Finnish subsidiary to PKbanken of Sweden in December because of is poor performance.

Increased competition mainly plays into hands of corporate customers. The traditional divide between customers of Kansallis-Osake-Pankki (KOP) and those of Union Bank of Finland (UBF) is almost a thing of the past and companies now freely shop around for best lending and borrowing rates.

Meanwhile the other major banks, Postipankki, Skopbank and OKO Bank are fast catching a share of the action by offering their services to corporate clients.

This has highlighted the problem that not all Finnish banks are equal. The commercial banks, UBF and KOP, are governed by solidity requirements unlike, for example, Postipankki, the post office bank, which has no shareholders' equity as the state provides the security.

The operations of the savings-bank organisation and its central bank Skopbank is governed by a special degree and likewise is OKO Bank and the cooperative banking sector.

A committee was set up recently to bring all the banks on an equal footing. A future law will probably require Postipankki to become a bank with an adequate shareholders' equity, although the state would still control a majority of the shares and much the rest could be subscribed by state owned institutions.

Similarly the biggest savings and cooperative banks would be able to increase their capital by selling share certificates to the public.

The structure of Finland's financial markets has traditionally been highly concentrated on a few institutions, notably UBF and KOP, which have ruled much of the money flows. With the recent developments this structure is gradually grinding down.

Apart from fence-hopping customers, they are facing competition in other services, such as foreign exchange where margins have narrowed significantly, and stockbroking where an increasing number of independent firms are eating into the bigger market share of the banks.

Adding insult to injury, there is a proposal to limit the banks' shareholdings in companies from the present 20 per cent to 10 per cent. This proposal would force banks to sell off holdings in some 250 companies with a total market capitalisation value of FM 1bn.

The banks understandably question the logic behind this move since Parliament plans at the same time to raise the maximum foreign ownership in Finnish companies from 20 to 40 per cent.

Olli V. Virtanen

Foreign banks in Sweden

Strong presence in foreign exchange

SWEDEN WAS *one of the last* countries in the Organisation for Economic Co-operation and Development (OECD) to open its doors to foreign banks in anything more than a representative capacity.

As a government report was forced to concede, "the Swedish credit market has been closed to foreign banks which has resulted in several countries limiting the opportunities for Swedish banks to participate in developments abroad."

Perhaps the most galling occasion came when Norway opened up to foreign banks, but refused to give Swedish banks permission to join in. Faced with the shock of a Nordic neighbour turning down applications from Swedish banks, the Swedes relented and, in January 1986, 13 foreign banks were given permission to set up subsidiaries in Sweden.

The banks which obtained approval are: Citibank and Manufacturers Hanover from the United States; Algemene Bank Nederland from Holland; Christiania Bank og Creditkasse and Den norske Creditbank from Norway; Banque Nationale de Paris, Banque Paribas, Société Générale, and Credit Lyonnais from France, as well as Banque Indosuez in a joint venture with Postipankki of Finland; and Kansallis Osake Pankki and OKO Bank from Finland.

Notable by their absence are Chase Manhattan, and the British, West German, and Japanese banks which seem content to bide their time and watch how the others fare in the Swedish market.

Louise Amell, head of Chase Manhattan's representative office in Stockholm, says, "we examined the profitability very carefully and decided that the margins are not spectacular, and not enough for us."

Few of the foreign banks expect to break even (let alone *make a profit) in the first year* because of the high start-up costs. The real estate boom in Stockholm has meant that it is expensive to open up offices and dealing rooms, while the cost of hiring staff locally or else of picking up the tax bill for expatriate staff in high-tax Sweden is daunting.

Mr Christian Peysson, joint managing director of Banque Nationale de Paris in Sweden, estimates that the average salary of traders has doubled in the last couple of years, because with the opening up of the markets, experienced traders are in short supply.

One reason why Den norske Creditbank chose to open up in Gothenburg, rather than in Stockholm, was to reduce its start-up costs. "The market in Stockholm is heavily overbanked, and it is easier to get cheaper premises and staff in Gothenburg," according to Mr Bjorn Lennegren, the managing director.

But while rents in Gothenburg are about two-thirds of those in Stockholm, the assumption about staff proved short-lived—"originally, staff were cheaper to hire in Gothenburg, but because other banks have tried to headhunt them, we have been forced to increase the salaries," says Mr Lennegren.

OKO Bank expects to make a loss in its first year in Sweden, because of high start-up costs such as its SKr 10-12m investment on the computing side. However, Mr Seppo Saarneva, head of corporate business, claims that the first eight months have shown that the market is "potentially very profitable," and says that OKO Bank expects to make its short-term profits on corporate business.

The foreign banks maintain that it is still too early to fully assess their impact on the Swedish market. "From the balance sheet point of view, the foreign banks have not made a big impact yet," says Mr Lennegren. The Swedish Banking Federation's latest figures for lending in Swedish kronor show that the foreign banks accounted for SKr 880m against SKr 170bn from the Swedish banks.

Where the foreign banks have made their presence felt is in the foreign exchange and money markets.

Mr Bo Hammerich, managing director of Citibank in Sweden, estimates that the foreign banks have already captured about 7 per cent of the forex and money market business. The arrival of the foreign banks effectively doubled the number of players in the market and led to much tougher competition.

"It has been a problem having all the foreign banks enter such a small market at the same time," says Mr Thomas Bongren of Banque Nationale de Paris.

Some of the foreign banks say that they have been forced to develop their trading activities more rapidly than they originally expected. "When we first planned to open up in Sweden there was a credit ceiling, and the Riksbank hinted that the foreign banks would be granted a very generous credit ceiling," says Mr Lennegren.

When the credit ceiling was abolished at the end of 1985, the competition increased in the market, and he claims that Den norske Creditbank now does not have the size and profitability of credit portfolio that it originally expected to have under the ceiling.

Most of the banks are trying to develop import-export financing links with the major Swedish groups, and feel that they have an advantage over the Swedish banks because they can offer the services of their own worldwide branch networks.

"This is a good opportunity to deal directly with large exporting groups such as Asea, rather than just dealing with the offshore subsidiaries," says Mr Peysson. "With their networks, the foreign banks can support trade financing in a large number of countries and help to finance Swedish exports."

The Norwegian banks are concentrating on strengthening their contacts with the Norwegian subsidiaries already present in Sweden, many of which are based in the Gothenburg area.

Citibank, which obtained an equity broking licence, plans to concentrate on its money market activities first before developing its equity side in the second half of 1987. It already has plans to take a share in the new options and futures market (Sofe) when this starts operating in 1987.

The Finnish banks have adopted a slightly different strategy and want to concentrate on customers with a Finnish background on both the corporate and retail side.

There are roughly 400,000 people of Finnish extraction living in Sweden, out of a total population of 8m, and between 300 to 350 Finnish companies have subsidiaries in Sweden.

Mr Birger Sandstroem, managing director of Kansallis Osake Pankki in Sweden, says that the bank wants to concentrate on financing trade between Sweden and Finland and between Sweden and the Soviet Union, where the Finns have strong contacts.

With Swedish-Finnish trade worth an estimated SKr 30bn a year in each direction, OKO Bank says its most important business is transferring funds for the day-to-day operations of Finnish subsidiaries, many of which are sales-orientated organisations with small assets. Most of their current customers are Finnish, with a few Swedish ones in need of same-day money transfers and foreign exchange services.

Sara Webb

Denmark

Economists differ but wages are critical

THE DANISH financial markets were taken by surprise in 1986. There was a general confidence at the beginning of the year that interest rates would fall, but in fact average yields in the long-term capital market rose from about 9.5 to 11.7 per cent over the year.

Paradoxically, this development took place during a year in which fiscal policy switched to its most restrictive stance for several years and the budget moved from deficit into surplus for the first time for over a decade, which also brought about a decline in the net supply of bonds from the government.

Worries about the strength of the krone and the large current external account deficit, as well as fears that inflation may accelerate again in 1987, produced a nervous market for both bonds and shares.

For 1987, there is no consensus forecast for the financial markets. Economists from the banking world differ sharply in their views on prices and interest rates, some predicting a decline in effective interest yields in the bond market to 7 or 8 per cent and others expecting a further rise in rates. All agree, however, that the spring collective wage bargaining round will be a crucial influence.

The most visible consequence of falling bond prices last year will appear when the accounts of the banks and savings banks begin to appear later this month. Almost all of them are expected to report a hefty unrealised loss on the value of their securities portfolios, an item which is entered fully into the profit and loss account as the difference between the value on the first and final day of the fiscal year. Some banks will probably be unable to avoid reporting a bottom line figure in red, either.

The total unrealised capital losses for the banking sector—and the life insurance companies will be similarly affected—will probably be in the region of DKr 10bn, the biggest loss they have ever suffered, but still only half the unrealised gains they made in 1985 (they also made big gains in 1983), on which, however, they had to pay corporate profits tax.

The fluctuations in the accounts of the Danish banks are almost entirely a reflection of the volatility of the large bond market, through which almost all mortgage financing is carried out and which over the past decade has also been expanded by heavy issues of government paper to finance the budget deficits which arose after the first oil price shock in 1974.

Denmark is one of the few countries which make the banks enter unrealised losses and gains on security holdings fully into the profit and loss account in the year in which they are sustained.

The Danish bankers are hoping that this practice will be altered, and brought into line with the practice in other EEC countries, when the EEC proceeds with the harmonisation of bank reporting.

The operating profits of the banks and savings banks are expected to be satisfactory. Mid-term reports showed the banks keeping their costs under control. Lending to both domestic and foreign clients increased rapidly, with lending to the domestic sector by the commercial banks up by 26 per cent over the 12 months to September.

Domestic lending slowed drastically in the final months of the year, however, after the government's measures to encourage saving and penalise consumer borrowing.

The growth in lending was financed partly by raising deposits, which expanded by only 13 per cent over the 12 months to September. The rest was financed by running down bond holdings.

Despite the appearance presented by the sharp rise in bank lending, the cash position of the banking system was tight through most of the year, and the large current external deficit was the main reason, especially as private sector net borrowing abroad fell by about DKr 5bn over the first nine months.

The liquidity position may ease somewhat in 1987, when the current account deficit is expected to fall from last year's DKr 33bn or so to around DKr 20bn.

Looking further ahead, two factors will have an overriding influence on the Danish capital markets. The first is the expected removal of barriers to trade in the service sectors in the EEC, which will sharpen competition for the Danish banks, insurance companies, mortgage finance institutions and other financial companies.

The second factor is the change in the economic policy regime, which is now being directed towards turning Denmark into a high-savings country. The government has already got its own house in order by restoring the budget to surplus. It has now turned its attention to the household sector, placing severe penalties on consumer borrowing.

The banks, pension funds and insurance companies are busily jockeying for position under the new regime. The prize is a larger share of the market for pension savings.

Public sector employees are virtually all covered by pension schemes which provide a pension in addition to the basic old age pension. Nearly all white-collar workers in the private sector, as well as the self-employed, are also covered. The blue-collar workers in the private sector are not, however.

One of the big issues over the next year or two will be how to provide better pension provision for this group, an issue which is complicated by the fact that opinion polls suggest this group is overwhelmingly in favour of taking the cash. Over the next 30 to 40 years as the population of retired people will rise sharply and the working population shrink, it is becoming urgent to undertake long-term pension schemes.

Central to the issue of how the pensions market should be constructed will be the issue of when the pensions money should be saved and how it should be invested. The blue-collar trade unions, organised under the banner of the powerful LO (Landsorganisation-TUC), want arrangements which will allow them to build up large equity stakes in the corporate sector with a correspondingly large influence over corporate decision-making.

Hilary Barnes

Norway

Credit conflict as lending abates

NORWEGIAN FINANCIAL markets have experienced a turbulent year with volatile interest rates and the currency at times under extreme pressure.

The high level of bank lending, which vastly exceeded Government targets in 1985 and helped fuel the unprecedented consumer spending boom, has moderated during the second half of 1986, but the authorities are still in some disarray on how to conduct credit market policy.

After the wave of de-regulation in 1985, the authorities have resorted to various forms of regulatory control of the banks to try to suppress the surge in lending. The central bank still argues strongly, however, that such controls only distort the market and divert credit flows into the unregulated so-called grey market.

The central bank wants interest rates to be the main instrument of credit policy, but at present this weapon is blunted by a taxation system, which, through deductibility of interest payments, reduces borrowers' sensitivity to interest rate levels.

The authorities have faced a tough battle in the foreign exchange markets for more than a year, and last May were forced to yield to speculative pressures. The incoming Labour government implemented a dramatic 12 per cent devaluation as virtually its first act on entering office.

Political and economic uncertainty has continued to undermine the Norwegian krone since the devaluation. The Bank of Norway, the Norwegian central bank, has been forced on several occasions to intervene heavily in order to support the currency; and finally at the beginning of December—when the passage of the 1987 budget was still in doubt—it had to resort to a significant jump in interest rates in order to stem the latest crisis of confidence.

With the previous healthy current account surpluses transformed with alarming speed into heavy deficits, the kingdom of Norway has been forced back into the international capital markets as a borrower for the first time since 1979.

The country's role as a capital exporter during the mid-1980s has been short-lived indeed, and today there is little talk about the Norwegian capital becoming a new international finance centre. Instead the international bankers are queueing again in Oslo to win the mandates for the state's foreign borrowing.

Helped by the buoyant oil revenues of previous years, the kingdom had reduced its foreign debts to virtually nil in the last couple of years, and compared with the risks present elsewhere in the world, it is clearly a much sought-after borrower.

When it made its re-entry to the Eurobond market in July last year, its US$500m issue was seen as aggressive by the market, and Norway was able to obtain the lowest cost on a fixed rate financing of any recent borrower in the Euromarket.

Initially the Government has decided to limit its foreign borrowing programme to NKr5-10bn a year, although for contingency reasons the central government's authority for raising such loans has been set at NKr15bn.

The Government has decided that, with the current account deteriorating so rapidly, it would be unwise to rely on the foreign exchange reserves to finance the deficits. Instead it declared in the 1987 budget that "it would seem natural to finance part of this deficit through government borrowing and not exclusively through private sector borrowing abroad."

In the budget approved last month the Finance Ministry warned that "too-extensive government borrowing should be avoided, since it might counteract or postpone the necessary gradual adjustment between production and the domestic use of goods and services." It remains to be seen to what extent the Government is able to heed its own good advice.

The Bank of Norway warned last year of the dangers of returning to the international capital markets in that the interest payments would become a burden on the external balance in the years to come.

Such a policy could be pursued in the 1970s with some degree of success, because we could fairly safely count on a sharp rise in incomes in the coming years (from prospective oil revenues). Our expectations in this respect are far more uncertain at present, at the same time as the cost of borrowing—the real interest rate—is about twice as high as it proved to be then."

The Government believes however, that it would have "unacceptable consequences for employment and welfare if any and all borrowing abroad is avoided, even if oil prices remain at a low level."

For the moment the resort to foreign borrowing is seen as a bridging expedient aimed at reducing some of the pain of economic adjustment. It is supposed to take place only for a limited period of years and for limited amounts. Ultimately, however, it is the future development of the oil price that will most crucially determine how permanent Norway's return to the international capital market proves to be.

As previous healthy surpluses become heavy deficits, the kingdom has been forced back to the international capital markets as a borrower for the first time since 1979.

It was the collapse of the oil price, combined with the growing uncertainty of the survival chances of the Conservative-led coalition government, that triggered the wave of speculation against the Norwegian currency at the beginning of May last year.

In the turmoil surrounding the resignation of the Government and the emergence of a minority Labour administration, short-term interest rates soared briefly to unsustainable levels around 50 per cent, before the Government decided to bow to the pressure and devalue the krone by 12 per cent.

From the start of the year to May 9, the Bank of Norway had drained its foreign exchange reserves by US$4.6bn in an attempt to staunch the flow of currency out of the country, but to no avail.

On May 11 Norway devalued. The central value of the exchange rate index against a basket of currencies was raised from 100 to 112. At the same time the swing margins for the exchange rate index were widened to plus/minus 2.25 per cent on either side of the central value. As a result the Bank of Norway is presently committed to intervening to prevent the currency weakening beyond the index point of 114.50.

By early December the krone had fallen to this lower limit, as confidence waned in the face of the endless political wrangling over the budget and the general weakness of the economy.

The Bank of Norway was again forced to intervene heavily to prevent a further fall, but when that tactic failed it resorted to the interest rate weapon to try to add some muscle to the less convincing political statements ruling out a second devaluation.

The Bank of Norway increased the interest rate on its loans to the banks from 14 to 16 per cent, and for a brief period money market interest rates rose above 20 per cent.

At least in the short-term, confidence returned once the budget was passed, and the central bank was able to reduce its key rate again in a couple of stages to 14.8 per cent by the end of the year.

According to the economic review of Christiania Bank, one of Norway's leading commercial banks, "a firm exchange rate now has very high priority in Norway, and this entails a major (and necessary) shift in economic policy." It remains to be seen whether the foreign exchange markets are equally sanguine, and most economists in neighbouring Sweden believe that another Norwegian devaluation is only a matter of time.

Through all this turmoil the Norwegian banks have emerged so far in good shape, even though provisions for bad debt risks are rising in line with a growing number of corporate bankruptcies.

The winner by the eight-month stage was Christiania Bank, Norway's second largest commercial bank, but Bergen Bank was not far behind.

All the banks have benefited from a very strong growth in lending and higher revenues from other sources like foreign exchange, equity and bond trading, fees and guarantee commissions.

The mushrooming growth in the banks' balance sheets has prompted both Bergen Bank and Christiania Bank to approach the market for an injection of equity capital. Christiania Bank is raising NKr 188m in a one-for-six rights issue, while Bergen Bank is raising some NKr 376m in a one-for-four issue.

Bank shares have proved popular with foreign investors during 1986. Demand has meant that the banks' foreign ownership quotas have been filled, with the result that shares for all three big banks have commanded considerable premiums. All three banks have applied for the quotas to be raised in order to be able to accommodate foreign investor interest more easily.

The Bergen Bank group's parent bank achieved a 51 per cent increase in operating profits to NKr 583m before provisions for loan losses, while the group reported operating profits of NKr 781m.

Bergen Bank reported a 28 per cent increase in total assets on an annual basis, and a brisk demand for new loans with an increase in lending of 34 per cent.

The Christiania Bank group raised its operating profits, before provisions for loan losses, by 52.2 per cent to NKr 904m, while the group's total assets jumped by 52.6 per cent in the year to the end of August to NKr 94.4bn. Christiania Bank has managed to boost profits so strongly, thanks to a strong growth in business combined with a tight control on costs.

Den norske Creditbank, the leading Norwegian bank, has been unable to keep up the same pace as its smaller rivals and is still struggling to contain its cost levels. The bank also suffers much larger losses on its loan portfolio as its exposure to the offshore sector is relatively greater. The DnC group could only manage a 12 per cent increase in operating profits, while assets rose by 28 per cent to NKr 107.5bn.

In its interim report the bank said that the problems for Norwegian business and industry caused by the falls in the US dollar rate and oil prices would be reflected in the bank's results for some time to come.

The Norwegian banks are still expanding abroad in an effort to extend their foreign networks, and have been helped by changes in Norwegian regulations to allow them to open branches abroad. Christiania Bank has terminated its earlier co-operation with Sweden's PKbanken in foreign markets and has taken over full control of the earlier joint ventures in London and New York.

The establishment of foreign branches rather than subsidiaries has the advantage that the branches can be based on the parent bank's capital base and financing capabilities. Christiania has opened a branch in Singapore and is in the process of turning the London and New York subsidiaries into branches. During 1986 it has also opened a subsidiary in Stockholm, while DnC has established itself in Gothenburg.

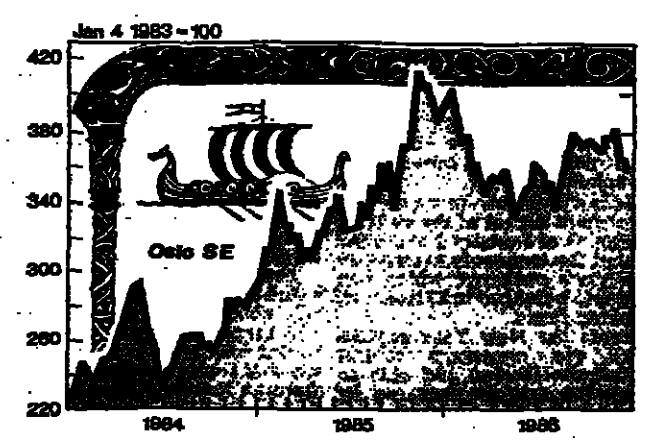
Bergen Bank, meanwhile, has taken over the remaining shares of its previously 65 per cent-owned Luxembourg subsidiary and has acquired a 20 per cent stake in the New York-based Skandinaviska Enskilda Banken Corporation.

Kevin Done

Oslo

Down, but it could have been worse

THE OSLO stock market was one of the weakest performers of the world's bourses last year, as the country's gloomy general economic prospects set the tone and the three-year bull market was brought to an end. The market was enlivened by a series of corporate power struggles, however, which have aroused new concern about regulation deficiencies.



With a fall of 10 per cent in the stock market index during the year Oslo fell far behind the general development of the world's stock markets. By comparison, for example, the world index compiled by Morgan Stanley Capital International showed increase of 39 per cent in 1986.

Only its neighbouring Scandinavian bourse in Copenhagen showed poorer development—with a fall of 20 per cent. Both Oslo and Copenhagen were clearly outshone by the performance of the other Nordic stock markets, with Helsinki (plus 63 per cent) and Stockholm (plus 51 per cent) both ranking among the strongest performers in the world last year.

Even so, given the deterioration in the economy the fall could easily have been sharper, and Mr Erik Jarve, director of the Oslo Stock Exchange, maintains the market performed better than could was feared.

The Oslo stock market has been marked by a series of vicious power struggles in recent months, as some of the big battalions have moved into action over the past year replacing the new generation of young financiers, whose activities had prospered during the earlier bull markets.

Kvaerner, the Norwegian engineering group, came under heavy attack from Elkem, the metals producer, which itself earlier in the year had held unsuccessful merger talks with Norcem.

The Elkem move for Kvaerner has sparked one of fiercest takeover battles yet seen in Oslo. At a Kvaerner shareholders meeting in December, Elkem—holding 27 per cent of the equity—and its allies Bergesen and Vesta were held at bay, although Elkem and Bergesen have both won a seat on the board.

The bid for control was thwarted by the possibly dubious use of the rule book to stop Bergesen and Vesta voting. The issue has been further complicated by the fact that the president of Vesta is under police investigation for allegedly having bought the Kvaerner holding on inside information.

Bergesen itself had earlier fought off an attack by Kosmos, where the management was back in control after its long struggle against Laly. Last month Kosmos and Norcem announced a mutual defence pact in which they bought 20 per cent stakes in each other.

In other moves Orkla has merged with Borregaard, creating Norway's second largest company after Norsk Hydro. Norcem has taken over Aker, and a merger is under way in the brewery and foods sector with a bid by Nora for Nidar, though a group of Nidar's main shareholders are trying to stop the deal.

In the repeated shuffling of the main power blocs, minority shareholders' rights have not counted for very much. It remains to be seen whether new legislation and tougher regulations can counter the worst market abuses.

The Oslo market fell precipitously early in the year to reach 1986 lows in May and August. It managed a rally particularly in late August and September, but the recovery was not sustained and prices fell back again in December as interest rates rose to curb speculation about a new devaluation and the credibility of the Labour Government's economic policy was again called into question.

The drop of 10 per cent in the Oslo stock market index last year comes after a strong development for three successive years. In 1983 the Oslo market caught the fever that had already been in evidence in neighbouring Sweden as foreign investors began paying attention to this relatively small market, and the index jumped by fully 91 per cent. In 1984 the index rose by a further 24 per cent and then by 31 per cent in 1985.

Not only the index but also the level of activity has fallen over the past year with the turnover of the Oslo bourse dropping by NKr3bn to a total of NKr30bn. For the first time in four years the capitalisation of the Oslo market dropped with a fall of NKr1.7bn to NKr74.7bn.

Above all the market has been plagued by the fall in the oil price, which has hit share prices for both oil companies and other sectors related to the industry, including shipping and offshore service companies. Some computer companies have also fared badly.

Banking shares performed strongly during the Autumn, but not sufficiently well for any of the main banks to appear in the list of the top 10 winners. Stronger performances generally were shown in the financial sectors by the banks and insurance companies and companies with large real assets which will provide a hedge against rising inflation.

The forest products industry is well represented among the year's main winners. Pulp and paper groups have gained directly from the 12 per cent devaluation implemented in May and the Norske Skog share price surged by no less than 109 per cent.

The Norwegian stock market made a dismal start to the year with sentiment affected negatively by the falling oil price and a series of disappointing company results. Confidence was further hit during the early spring as fears of widespread industrial conflict became reality and speculation arose over increased capital gains tax and the introduction of a turnover tax.

Foreign interest in the Norwegian stock market faded in 1985 and early 1986, although it revived during the summer. Big Norwegian institutions also began to reduce their exposure to the stock market in favour of the bond market and the high yields available there.

The stock market was unsettled by the fall of the Conservative-led coalition government at the beginning of May and a rally sparked by the devaluation lasted barely 24 hours. Fears of tax changes that would hit the stock market proved misplaced, however. When the incoming Labour Government introduced its first modest austerity package at the end of May, it had been persuaded by the non-socialist parties to drop the idea of a turnover tax and there was only a small change in capital gains tax rates.

The market rallied in August-September, helped by a rise in the oil price, the emergence of several takeover situations and prospects of lower interest rates. Despite the weak profits performance of Norwegian industry, interest was sustained during late autumn with a return of some foreign buying, but the gains could not be held. The Oslo market fell back during December, and brokers appeared gloomy about prospects for this year.

Kevin Done

Stockholm

Bull market gives the banks a shine

THE STOCKHOLM bourse has seen record highs for indices and turnover this year, with the banking, trading, real estate/construction, and forestry sectors performing particularly well.

The Veckans Affaerer Index has climbed 49.1 per cent since the beginning of 1986, while the Jacobson and Ponsbach Index, which covers the 30 most important industrial companies, rose 40 per cent. The bull market is now running into its sixth year, and the VA *Index has risen* some 270 per cent since the end of 1981.

Turnover reached a record SKr137bn in 1986, compared with SKr83bn *last year*.

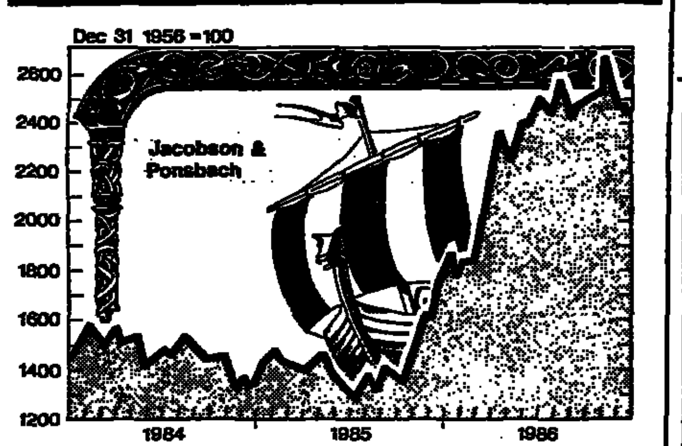
A strong start to 1986 saw many of the export-orientated companies benefit from the strong dollar and report good *results*. The dollar-Swedish Kronor exchange rate has since dropped from about 7.6 to 6.9.

Falling interest rates, lower oil prices, and an altogether rosier economic picture during 1986 have given an additional boost to the market.

The banking sector has risen 78 per cent, and the commercial banks have shown record profits, reaping the benefits of falling interest rates and more liberal operating conditions in the domestic credit market.

The forestry sector showed a 76 per cent increase, with the companies helped by rising pulp and paper prices later in the year. Escalating commercial rents, particularly in the Stockholm, Malmo and Gothenburg areas, have led to strong performance in the real estate and construction sector, which rose by 82 per cent in 1986.

The shipping and chemicals companies were among the year's poor performers. Analysts expect the forestry and *real estate/construction sectors* to perform well again in 1987.



The record turnover and index highs come in spite of a doubling in turnover tax—with *effect from July 1, 1986—which* sparked off fears that business would simply move overseas to London and New York. Market makers in London estimate that the volume of trade in the top six Swedish stocks is now larger than that in Stockholm.

The year has not been without its moments of excitment, as the activities of Fermenta, the Swedish biotechnology group, continually stole the limelight.

Fermenta has been fined twice by the stock exchange for giving misleading information, and Mr Bengt Ryden, Director of the exchange, was in favour of expelling Fermenta in November but was out-voted by the other stock exchange board members.

In the aftermath of the Ivan Boesky and George Collier insider-trading affairs on either side of the Atlantic, *the Swedish* Bank Inspection Board (which regulates Swedish capital markets) recommended a tougher stance on insider trading regulations in Sweden in connection with company takeovers.

The board said that the existing regulations, which ban trading by insiders in the bidding and target companies once a bid has been approved by the bidder's board, do not necessarily prevent insider trading. It recommended that the regulations take effect from whenever firm preparations for the bid begin to emerge.

The Bank Inspection Board also asked for the rules to be widened, to allow the questioning of anyone suspected of acting as a nominee for someone with inside information. The board said that four cases of suspected insider trading tracked down in 1986 could not be pursued because the suspects fell outside the scope of the existing *legislation*.

The Government has said that SSAB, the state-controlled commercial steel group, would eventually be introduced on the *stock market. So far, the Government's* privatisation programme has run along very modest lines with 15 per cent of PKbanken, the country's third largest commercial bank, introduced on the market in 1984.

Sara Webb

Helsinki

More records as shares rise by 60 per cent

THE HELSINKI Stock Exchange (HSE), though small in size, has taken long leaps during the past couple of years. Both prices and the total turnover keep rocketing up while new technology and regulations are being introduced to the market.

During 1986 the HSE turnover grew by one third to FM 16bn ($3.2bn). *This is entirely due to* the tremendous growth on the equity side. The trading volume of restricted shares increased threefold compared to 1985 while free share volume grew 5½ times over the year.

Share prices went up by 60 per cent during January-November and new all-time highs were recorded in early December, too.

Meanwhile, bond and debenture dealing declined by 31.4 per cent mainly because of the restrictions in selling those securities to foreign investors, *which took effect in June 1985* after over-heated borrowing from abroad where interest rates were substantially lower than in Finland. Bonds and debentures now account for about 40 per cent of the total HSE turnover.

The *stock market* has enjoyed a combination of several favourable factors. First, Finns have more money available for securities as housing investment is levelling off. Share ownership has also become politically more accepted and consequently the Centre-Left coalition government recently introduced a tax reform which cut the income tax and raised the level of tax-fee capital income.

Secondly, foreign investors "found" Finland again last summer. They saw bargains, bought large quantities of unrestricted shares and subsequently helped to pull all the indices up. The run by foreigners lasted for about four months and since then the prices have stabilised.

The first foreign companies have also taken listing on the HSE. The first was Aga of Sweden which entered Helsinki last year followed this year by two others from Sweden, ASEA in November and Beijer Invest in mid-December.

At the same time the HSE also got its first foreign brokers when Citibank and Samuel Montagu received licences in December.

Despite the stock market growth, the HSE remains a relatively small operator which has a number of structural handicaps. To start with, Finland's economy can provide it *with only so many potential* clients.

Some 17 per cent of the country's industrial output is generated by state-owned companies which have not been allowed to tap the stock market for capital. (There is, however, a continuing debate on the subject and doors to the public capital markets may gradually open for them.)

Finland also has a substantial co-operative retail and wholesale sector which stays outside of the stock market. Other important branches missing from the HSE include almost all transport and construction companies, the large savings bank and co-operative bank groups as well as most insurance companies.

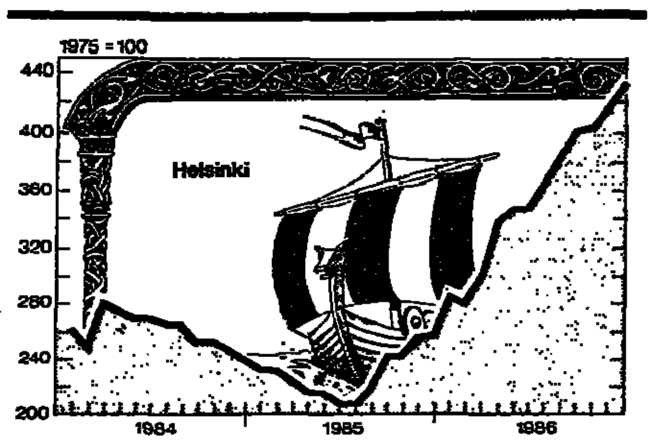
Nevertheless, the HSE is fast developing and modernising its *operations. It is currently in the* process of introducing a new sophisticated adp-system that will register all deals and in future may help to create a central register of ownership in all quoted companies.

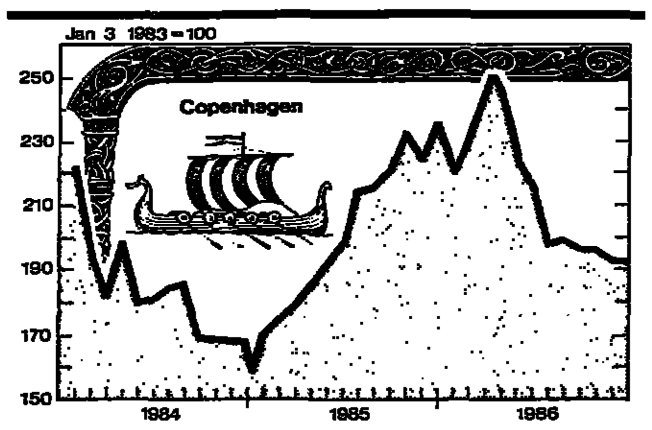
Also the regulators, including *the board of the HSE itself,* have cast an eye on the rapid growth and potential misconduct on the stock market. A comprehensive code of conduct was established at the beginning of this year.

A committee was set up recently to prepare a new securities law. And another law for establishing unit trusts was presented to parliament at the beginning of December.

The boom on the market may quieten this year but there is every indication that during the past two years the HSE has shifted to a permanently higher gear both in terms of turnover and stature.

Olli V. Virtanen





Going electronic

Deals come back to the SE

THE REFORM of the Copenhagen Stock Exchange in 1987 will take place with a controlled fizz rather than a big bang. The most striking of the changes will be the switch from the present auction system, by which each paper is called once a day, to an electronic trading system.

Conversion to the electronic system will not take place on a single day, however. The starting date will be in June (put forward from the original planned start-up in March), when on line trading in a selected series of bonds will begin, as well as trading in some shares. More bonds and shares will be introduced as experience is gained and problems are ironed out.

The introduction of the elec*tronic trading system was pre*ceded in 1983 by the abolition of physical bond coupons, which at that date were registered electronically with the Danish securities centre. By Easter 1988, it is planned to convert all share registrations to the electronic system, and only then will the electronic trading system achieve its full effect, at least where shares are concerned.

One of the main consequences of the introduction of the electronic trading system will be to bring trading back to the stock exchange (and to dealers linked in to the system from their own offices, which will first become possible in January, 1988).

At present only two or three per cent of bond deals are conducted on the stock exchange. The rest are done through the telephonic market.

This will follow from a second important aspect of the reform, which as of January 1 this year ended the monopoly to trade on the stock exchange which has hitherto belonged to 27 licensed broking firms.

From the New Year anyone with the necessary capital (minimum Dkr5m) and able to meet the criteria required by the law for experience in the business of securities trading, is permitted to set up a limited *company for the purpose of* stockbroking.

The effect of the reform is to allow the banks and savings banks, as well as insurance companies, which are by far the biggest dealers in securities, to set up their own broking subsidiaries. Nearly all the larger institutions have either set up their own broking companies or taken over one of the former broking firms (which were operated as partnerships).

The change has also enabled foreigners to get a slice of the action—so far all of them Scandinavian, including Bergs, of Stockholm (associated with the Volvo group of companies), and Nevi and Custos of Norway.

It is doubtfull whether *finance houses from other* European countries or the USA will consider it worth while to take such an intimate interest in the Danish market, but the Danish bond market is in fact quite large.

The nominal (issue price) value of bonds in circulation totals about Dkr1,000bn ($125bn) and turnover in 1986 was close to Dkr 4,000bn. It is both a volatile and liquid market, in which German investors over the past few years have shown a considerable interest.

The electronic trading system will make the market more transparent and efficient. All trades in which officially listed broking firms are involved will have to be reported to the system at very short notice. The system, by Tandem, is designed to provide instant information for each paper on the day's highest and lowest bids, highest and lowest prices at which trades have taken place, the day's turnover and the date and price at which trades last took place.

Hilary Barnes

Copenhagen

Foreign money returns

THE COPENHAGEN share price index was about 19 per cent off in 1986, in marked contrast to the performance of most other European bourses and to the sustained recovery in Danish share prices between 1982 and 1985.

The equity market first turned sour in the second half of the year but did not deter lively new issue activity in the first three quarters.

Total share issues by companies already listed on the Copenhagen bourse increased to DKr6.7bn last year from DKr3.0bn in 1985, while the yield from the flotations by 35 new companies—17 of them on the bourse's main list—was DKr2.1bn compared with DKr1.1bn in 1985 and DKr1.4bn in 1984.

After two years with net selling of Danish shares by foreign investors, there was a net inflow of money to the market from abroad of about DKr620m in the first three quarters of last year. The foreign interest culminated with the flotation in September of an issue of B shares by Nordisk Gentofte, the insulin, plasma products and growth hormone producer.

Last year also saw a big leap in foreign shares ownership by Danish investors, a traffic which was only fully liberalised in 1985. Net investment in foreign shares in the first three quarters climbed to DKr11.6bn compared with DKr2.9bn in the whole of 1985 and DKr1.3bn in 1984. Much of this investment was channelled through unit trusts.

The investment companies came out of the year with the best performance, a decline in the average share price index for the group of seven per cent, while the shipping companies, down 29 per cent, and industrials, down 25 per cent, did least well.

The decline in the industrials reflects the expectation that profits in many of the most export-dependent companies, such as Novo the pharmaceuticals and enzymes producer, will be down in 1986, not least because of the strength of the Krone, while the domestic outlook remains uncertain in 1987.

The 1986 decline in share prices leaves Danish shares with an average p/e ratio of eight, according to Morgan Stanley Capital International, which is the lowest in Europe. Whether this makes Danish shares cheap depends on one's *confidence in the present* exchange rate.

Hilary Barnes

The Copenhagen stock exchange, where electronics give a new twist to share trading

Pacesetters faltering

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process should be allowed to develop.

In Sweden the credit market has undergone a virtual revolution in the last couple of years as most of the regulations in the domestic market have been swept away and the banks have been relieved of controls on both the volume of lending and the interest rates they can charge.

During the 1980s a well-functioning money market has also been built up in Stockholm virtually from scratch, while in the space of 18 months two options markets have also sprung into existence. The second one is due to commence operations early this year. The core of the country's foreign exchange regulations are still in force, however, although even here some further relaxations have been heralded for 1987.

In Denmark the reform of the Copenhagen stock exchange will be one of the major events of 1987. The monopoly which 25 licensed stockbrokers have enjoyed to trade on the bourse is to be ended. *Most of the bigger* banks have taken advantage of the change by setting up their own companies, and some existing broking companies have been bought by banks. The exchange is going electronic, with a pilot project starting on March 2, and the full system is due to be in place by the beginning of 1988.

In the last couple of years the main Scandinavian banks have been highly active in building up their foreign networks, and increasingly they have decided to go it alone by abandoning the original consortium banks set up originally as a cautious first step outside the northern fastness.

The authorities have also opened up Nordic banking markets for the reverse process, namely the entry of foreign banks into Scandinavia. Sweden was the last to remove this barrier, but 13 foreign banks (two in a joint venture) were finally granted licences, and 12 new banks have started operations in Sweden during the last 12 months.

Alongside new markets and new instruments, the previously dormant Nordic stock markets have also sprung into astonishing new life during the 1980s. In the last 12 months both Stockholm and Helsinki have enjoyed strong bull markets, in sharp contrast to Oslo and Copenhagen, which turned in two of the weakest performances of any of the world's main stock markets.